

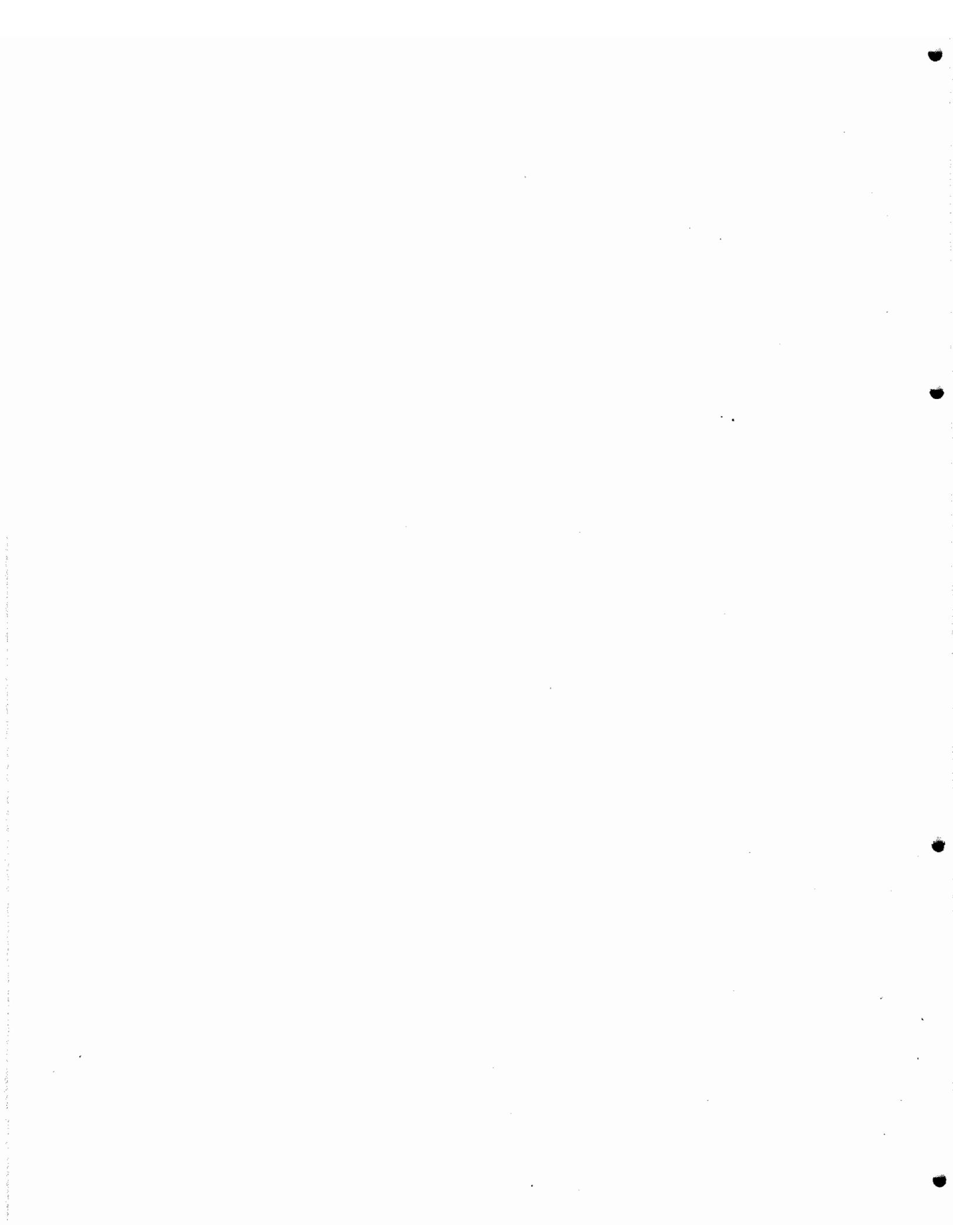


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PRETISS COUNTY SCHOOL DISTRICT

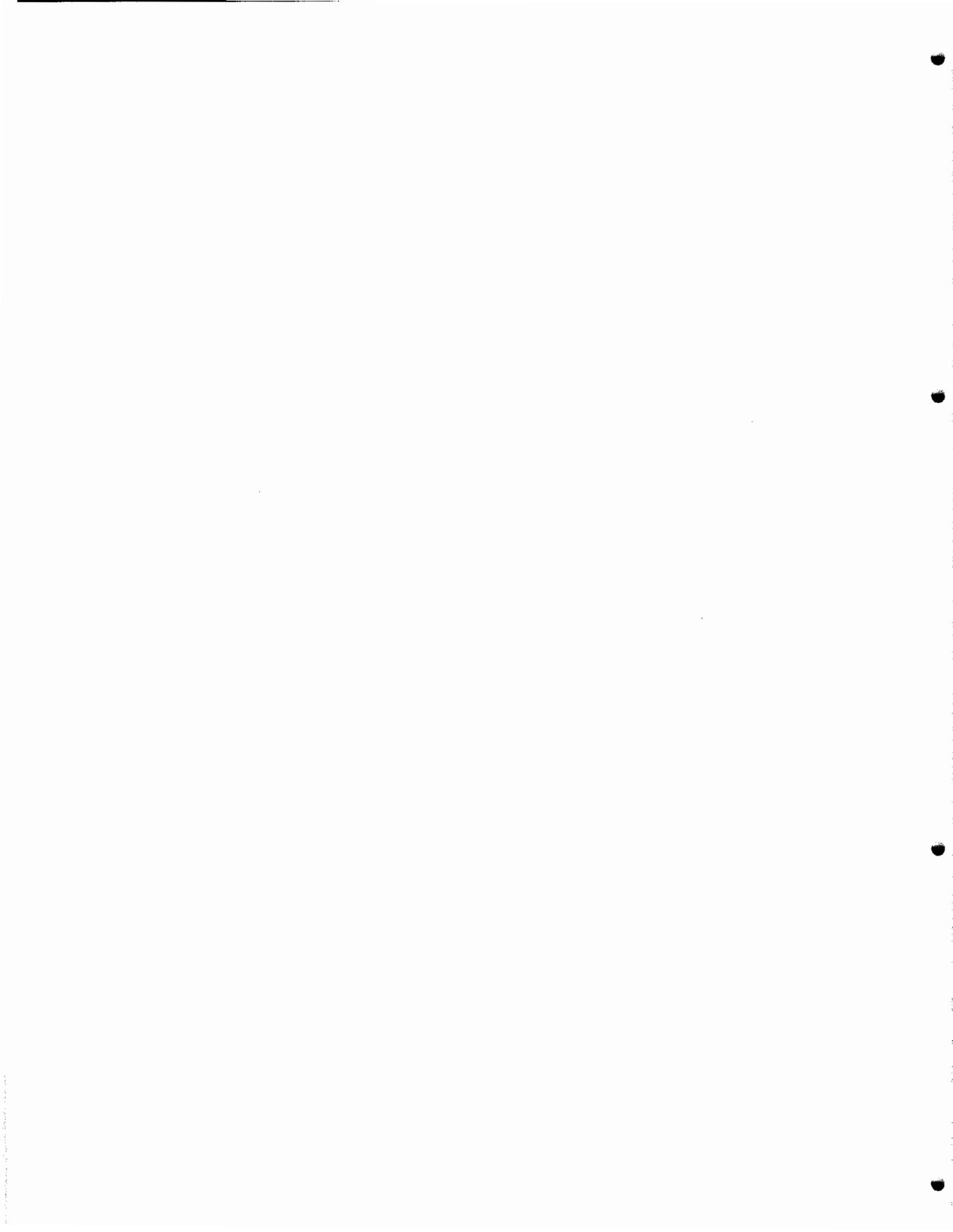
AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005



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JUNE 30, 2005**

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Certified Public Accountants

A. Braddock Brawner, CPA
W. T. Vanstory, CPA
Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA

Christopher D. Murphy, CPA
Brenda G. Nichols, CPA

512 Taylor Street
AmSouth Bank Building
Post Office Box 458
Corinth, Mississippi 38835
Telephone (662) 286-7082
Fax (662) 286-3365

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

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

Superintendent and School Board
Prentiss County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Prentiss County School District at 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 a report dated October 16, 2006, on our consideration of the Prentiss 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 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 8 and the Budgetary Comparison Schedules and corresponding notes on pages 33 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Prentiss 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Brauner, Vanstey, & Co. P.A

October 16, 2006
Booneville, Mississippi

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

The discussion and analysis of Prentiss 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 selection is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets increased by \$473,637, which represents 14.49% increase from fiscal year 2004. We stopped all the repair and maintenance unless it was an emergency. We met the needs of the students, but tried to be conservative with our spending.

General revenues account for \$12,779,854 in revenue, or 72.6% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,833,170 or 27.4% of total revenues.

The District had \$17,141,333 in expenses; only \$4,833,170 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,779,854 were adequate to provide for these programs.

Among major funds, the General Fund had \$12,882,307 in revenues and \$12,515,520 in expenditures. The General Fund's fund balance increased \$128,830 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$341,421.

Long-term debt decreased by \$585,641.

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.

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

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

The government-wide financial statements can be found on pages 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 recommended 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 and 14 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 18-31 of this report.

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 33-36 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 37 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 \$3,766,152 as of June 30, 2005.

By far the largest portion of the District's net assets, 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, compared to 2004.

Table 1
Condensed Statement of Net Assets

	2005 Amount	2004 Amount	Total Percentage Change 2004-2005
Current assets	\$ 1,663,710	\$ 1,485,333	12.0%
Capital assets, net	10,703,822	11,045,243	-3.1%
Total assets	12,367,532	12,530,576	-1.3%
Current liabilities	343,694	394,734	-12.9%
Long-term debt outstanding	8,257,686	8,843,327	-6.6%
Total liabilities	8,601,380	9,238,061	-6.9%
Net assets:			
Invested in capital assets, net of related debt	3,126,820	2,857,766	9.4%
Restricted	736,652	569,325	29.4%
Unrestricted	(97,320)	(134,576)	-27.7%
Total net assets	\$ 3,766,152	\$ 3,292,515	14.4%

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

The principal retirement of \$585,641 of long-term debt

The addition of \$350,122 of depreciation

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

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$17,613,024. The total cost of all programs and services was \$17,141,333. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

Table 2
Changes in Net Assets

	2005 Amount	2004 Amount	Total Percentage Change 2004-2005
Revenues:			
Program revenues	4,833,170	\$ 4,873,011	-0.8%
General revenues	12,779,854	12,628,830	1.2%
Total revenues	<u>17,613,024</u>	<u>17,501,841</u>	0.6%
Expenses:			
Instruction	10,892,253	10,883,031	0.1%
Support services	4,517,515	5,137,696	-12.1%
Non-instructional	1,343,269	1,424,769	-5.7%
Interest on long-term liabilities	388,296	403,695	-3.8%
Total expenses	<u>17,141,333</u>	<u>17,849,191</u>	-4.0%
Increase in net assets	<u>\$ 471,691</u>	<u>\$ (347,350)</u>	-235.8%

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

Table 3
Net Cost of Governmental Activities

	Total Expenses		Total Percentage 2004-2005	Net (Expenses) Revenue		Total Percentage 2004-2005
	2005	2004		2005	2004	
Instruction	\$ 10,892,253	\$ 10,883,031	0.1%	(7,702,138)	(7,686,624)	0.2%
Support services	4,517,515	5,137,696	-12.1%	(4,085,067)	(4,619,029)	-11.6%
Non-instructional	1,343,269	1,424,769	-5.7%	(132,662)	(266,832)	-50.3%
Interest on long-term liabilities	388,296	403,695	-3.8%	(388,296)	(403,695)	-3.8%
Total expenses	<u>\$ 17,141,333</u>	<u>\$ 17,849,191</u>	-4.0%	<u>\$ (12,308,163)</u>	<u>\$ (12,976,180)</u>	-5.1%

Net cost of governmental activities \$12,308,163, was financed by general revenue, which is made up of primarily property taxes \$2,510,175 and state revenue \$10,042,147.

Investment earnings accounted for \$75,103.

We had other revenues consisting of \$151,823 in federal and other of \$606.

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

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, outflow 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 \$1,282,843, an increase of \$240,515 over the 2004 year. The fund balance constitutes reserved fund balance of \$297,063 and unreserved fund balance of \$985,780, which is available for spending at the District's discretion.

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 \$128,830 over the 2004 year. The fund balance of all remaining Governmental Funds was \$736,654, an increase of \$240,515 over the 2004 year.

BUDGETARY HIGHLIGHTS

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

General Fund

Revenue: Local revenues were less than original budget because of budgeted tuition from other LEA's to go in general fund, and we changed those revenues to go in vocational funds. State revenues were less than original budget due to a reduction in the Special Education funds. Federal funds were less than original budget because E-note funding was less than anticipated.

Expenditures: Instructional expenditures were slightly more than original budget because of some changes in staff, and the substitute pay was more than expected. Expenditures for support services were more than budgeted because some of the dues and fees were more than budgeted, and the vehicle operation and vehicle insurance was more than expected. Non-instructional expenditures were slightly more because of increased cost for dues and fees. Facilities acquisition and construction expenditures were more than original budget due to cost for architectural fees not expected.

Other Financing Sources: More was originally budgeted than was expended because interest and principal was less than expected, and the transfers to other funds were less than anticipated.

School Food Service

Revenues: Local sources were more than original budget because of more participation in extra food sales, lunches, breakfast and rebates. State sources were more than amount budgeted due to more participation in the breakfast program and the donated commodities.

Expenditures: Expenditures were more than original budget because dues and fees were more than expected. We had more repair expense, more substitutes and more food cost due to increased participation in meals.

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

BUDGETARY HIGHLIGHTS (Continued)

Vocational Education Fund

Revenues: Revenues were more than original budget because tuition from other LEA's were not budgeted in this fund but was recorded here because it was for vocational.

Expenditures: Expenditures were more than original budget because of some computer equipment purchased that was not expected.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$10,703,822, a decrease of \$341,421. Total accumulated depreciation as of June 30, 2005 was \$3,238,204 and total depreciation expense for the year was \$350,122 resulting in total net assets of \$10,703,822.

Additional information of the District's capital assets can be found in Note 5 on page 25 of this report.

Debt Administration. At June 30, 2005, the District had \$8,257,686 in limited obligation bonds and other long-term debt outstanding, of which \$600,256 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on page 26 of this report.

CURRENT ISSUES

The Prentiss County School District has extended programs for the Learn and Serve grant at Hills Chapel School and also extended the Comprehensive School Reform Program at Wheeler School, which is the literacy for learning program, to the first grade. We added computers and updated the computers at Marietta, Hills Chapel, Jumpertown and Thrasher Schools. This will promote more parental involvement, since the parents are allowed to use these computers. We have continued the Class Size Reduction Technology Program to help reduce class size. We added Essential Skills computer software at Jumpertown School to promote reading and language. We also added Compass Learning in the third grade. We have continued with the art programs and added art at Wheeler and Jumpertown schools.

We continue to encourage and recognize our students for their achievements and we are constantly working to keep our students in school to acquire a good education.

We continue to have a good professional development program. We sent sixteen teachers to the Novice Training to help promote their skills in computers. Many of our teachers are continuing their education to acquire higher degrees and National Board Certification. Our Teachers work with the parents to keep them involved with the progress of their children.

Our administration is proud of our students and teachers. They are constantly looking for new ideas to promote the education of our students and to make a good environment for them.

Hill Chapel, Marietta and New Site Schools are Level Five Schools, which is superior. Jumpertown and Wheeler are Level Four Schools, which is exemplary. Thrasher is a Level Three School, which is successful. All of our schools are providing adequate education for our students. We are working very hard to make all of our schools a Level Five.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Prentiss County School District, P.O. Box 179, Booneville, MS 38829.

Exhibit A

**PRETISS COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 803,824
Investments	9,617
Due from other governments	647,171
Due from other funds	71,259
Inventories and prepaid items	131,839
Capital Assets, net (Note 5)	<u>10,703,822</u>
Total Assets	<u><u>12,367,532</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	180,915
Interest Payable on Long Term liabilities	69,509
Deferred revenue	93,270
Long Term Liabilities (Due within one year) (Note 6)	
Capital Related liabilities	551,000
Non-capital liabilities	49,256
Long Term Liabilities (Due after one year) (Note 6)	
Capital Related liabilities	7,026,002
Non-capital liabilities	<u>631,428</u>
Total Liabilities	<u>8,601,380</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,126,820
Restricted for Federal and State Programs	137,724
Restricted for food service	321,569
Restricted for unemployment	40,944
Restricted for Debt Service	230,963
Restricted for other	5,452
Unrestricted	<u>(97,320)</u>
Total Net Assets	<u>3,766,152</u>
Total Liabilities and Net Assets	<u><u>\$ 12,367,532</u></u>

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

PRETISS COUNTY SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Total	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions			
Governmental Activities						
Instruction	\$ 10,892,253	1,012,694	2,177,421	-	(7,702,138)	
Support services	4,517,515	-	432,448	-	(4,085,067)	
Noninstructional services	1,343,269	342,271	868,336	-	(132,662)	
Interest on long-term liabilities	388,296	-	-	-	(388,296)	
Total Governmental Activities	17,141,333	1,354,965	3,478,205	-	(12,308,163)	
General Revenues:						
Taxes:						
General Purpose levies						2,342,614
Debt service levies						167,561
Unrestricted grants and contributions						
State						10,042,147
Federal						151,823
Unrestricted investment earnings						75,103
Other						606
Total General Revenues						12,779,854
Change in Net Assets						471,691
Net Assets-Beginning						3,292,515
Prior period adjustment						1,946
Net Assets-Ending						\$ 3,766,152

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

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

EXHIBIT C

	Major Funds					Total (Memorandum Only)
	General Funds	School Food Service Fund	Vocational Education Fund	MAEP Debt Retirement Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents (Note 3)	\$ 352,122	296,413	-	-	155,289	803,824
Investments (Note 3)	-	-	-	9,617	-	9,617
Due from other governments	214,306	-	105,677	198,237	128,951	647,171
Due from other funds (Note 4)	160,495	-	-	-	-	160,495
Inventory of food	-	25,156	-	-	-	25,156
Total Assets	726,923	321,569	105,677	207,854	284,240	1,646,263
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable and accrued liabilities	180,734	-	-	-	180	180,914
Due to other funds (Note 4)	-	-	68,758	-	20,478	89,236
Deferred revenue	-	-	-	-	93,270	93,270
Total Liabilities	180,734	-	68,758	-	113,928	363,420
Fund Equity						
Reserved for						
Debt Service	-	-	-	207,854	23,109	230,963
Inventory	-	25,156	-	-	-	25,156
Unemployment Benefits	-	-	-	-	40,944	40,944
Unreserved and undesignated:						
Reported in General Funds	546,189	-	-	-	-	546,189
Reported in Special Revenue Funds	-	296,413	36,919	-	106,259	439,591
Total Fund Balances	546,189	321,569	36,919	207,854	170,312	1,282,843
Total Liabilities and Fund Balances	\$ 726,923	321,569	105,677	207,854	284,240	1,646,263

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

**Prentiss County School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005**

	<u>Amount</u>
Total Fund Balance-Governmental Funds	\$ 1,282,843
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,238,204. (Note 5)	10,703,822
2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds, (Note 6)	(8,257,686)
3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds.	(69,509)
4. Debt issuance costs are reported as expenditures in the governmental funds, but are capitalized and amortized over the life of the debt in the statement of net assets.	106,683
5. Rounding Correction	(1)
Total Net Assets - Governmental Activities	<u>\$ 3,766,152</u>

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

PRENTISS COUNTY SCHOOL DISTRICT
Statement of Revenue, Expenditures, and Changes in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2005

	Major Funds				Other Governmental Funds	Total (Memorandum Only)
	General Fund	School Food Service Fund	Vocational Education Fund	MAEP Debt Retirement Fund		
Revenues						
Local sources	\$ 3,255,152	387,023	108,758	7,066	193,495	3,951,494
State sources	9,475,332	6,121	1,079,948	396,475	101,352	11,059,228
Federal sources	151,823	862,215	53,639	-	1,534,021	2,601,698
Total Revenues	12,882,307	1,255,359	1,242,345	403,541	1,828,868	17,612,420
Expenditures						
Instruction	8,242,731	-	1,206,380	-	1,205,132	10,654,243
Support services	3,701,311	62,155	251,923	-	426,289	4,441,678
Noninstructional services	275,733	1,053,955	-	6,795	-	1,336,483
Principal	239,842	-	-	205,000	105,000	549,842
Interest	55,903	-	-	187,743	144,744	388,390
Total Expenditures	12,515,520	1,116,110	1,458,303	399,538	1,881,165	17,370,636
Excess of Revenues Over (Under)						
Expenditures	366,787	139,249	(215,958)	4,003	(52,297)	241,784
Other Financing Sources (Uses)						
Sale of capital assets	-	605	-	-	-	605
Operating transfers in	33,511	-	252,876	-	18,592	304,979
Operating transfers out	(271,468)	(25,000)	-	-	(8,511)	(304,979)
Total Other Financing Sources (Uses)	(237,957)	(24,395)	252,876	-	10,081	605
Excess (deficiency) of revenues over						
expenditures and other sources (uses)	128,830	114,854	36,918	4,003	(42,216)	242,389
Fund Balances, June 30, 2004	417,359	206,004	-	199,051	219,914	1,042,328
Prior Period Adjustments	-	-	-	4,800	(7,385)	(2,585)
Fund Balances, June 30, 2004, Restated	417,359	206,004	-	203,851	212,529	1,039,743
Decrease in reserve for inventory	-	711	-	-	-	711
Fund Balances, June 30, 2005	\$ 546,189	321,569	36,918	207,854	170,313	1,282,843

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

Exhibit D-1

**Prentiss County School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the year ended June 30, 2005**

	<u>Amount</u>
Amounts reported for governmental activities in the statement of activities are different because:	\$ 242,389
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$14,919 and the depreciation expense amounted to \$350,122. (Note 5)	(335,203)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	549,842
3. Premium on debt is amortized over the life of the debt.	(11,191)
4. Decrease in accrued interest is reported as an adjustment to interest expense in the statement of activities.	94
5. Decrease in compensated absences is reported as an adjustment to support services and noninstructional services.	35,799
6. Net loss on disposal of assets	(10,749)
7. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds but noninstructional expenditures are increased in the statement of activities.	711
8. Rounding correction.	<u>(1)</u>
Change in Net Assets of Governmental Activities	<u>\$ 471,691</u>

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

**PRENTISS COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
June 30, 2005**

	<u>Fiduciary Funds</u>
ASSETS	
Cash and cash equivalents	\$ 993,658
TOTAL ASSETS	<u>993,658</u>
LIABILITIES	
Accounts payable & accrued liabilities	856,816
Due to other Funds	71,259
Due to student clubs	<u>65,583</u>
TOTAL LIABILITIES	<u>\$ 993,658</u>

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

PRENTISS COUNTY SCHOOL DISTRICT

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**PRENTISS 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 of which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government 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 service 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 reporting entity 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, regardless of when the cash flow takes place. Revenues, expenses, gains, losses, assets, and

**PRETISS 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 (Continued)

liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

School Food Service Fund – This fund accounts for local and federal revenue and pays the cost of providing lunch and breakfast meals to students.

Vocational Education Fund – This fund accounts for revenues collected and used to provide education to vocational education students.

MAEP Debt Retirement Fund – This fund accounts for the revenues collected and payments made to retire the bonds outstanding under the Limited Obligation Bond issue.

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 capital projects) that are legally restricted for specific expenditure purposes.

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

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

FIDUCIARY FUNDS

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

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

D. Account Classifications

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

E. Encumbrances

An encumbrances 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 other deposits consist of amounts on deposit in demand accounts. Other deposits consist of certificates of deposit. Cash and other deposits 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 inventories are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

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 statement.

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.

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

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

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

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

J. Long-term liabilities

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

K. Interfund Transactions and Balances

Interfund transactions and balances are the result of timing differences between the date 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 collecting 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:

- a. 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, construction, or improvement of those assets.

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications (Continued)

- a. 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 further split between designated and undesignated.

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

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

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

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 school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(2) Changes in Accounting Standards

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

(3) Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

The collateral for public entities' deposit 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 27-105-5, 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 \$803,824 and \$993,658, respectively. The carrying amount of deposits reported in the government wide statements was cash and cash equivalents of \$803,824, and the bank balance was \$2,845,747.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$2,845,747 was exposed to custodial credit risk.

Investments

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

Investment Type	Maturities (in years)	Fair Market Value	Rating
Hancock Horizon Treasury Sec Mmkt CL A	Less than 1	\$ 9,617	AAA
Total		\$ 9,617	

Interest Rate Risk – The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(3) Cash and Cash Equivalents and Investments (Continued)

Investments (continued)

Custodial Credit Risk – Investments – Custodial credit risk is defined as the risk that, in the event of a financial institution’s failure, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district’s investment balance was exposed to custodial credit risk.

Concentration of Credit Risk = Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had no investments requiring such disclosure.

(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>	<u>Reason</u>
Governmental funds			
General fund	\$ 160,495	-	Loans to funds awaiting reimbursement
Vocational Education Fund	-	68,758	Loans to funds awaiting reimbursement
Other governmental	-	20,478	Loans to funds awaiting reimbursement
Fiduciary Funds		71,259	Interest earned not yet paid to General Fund
Total Due From/Due To	<u>\$ 160,495</u>	<u>\$ 160,495</u>	

	<u>Transfer In</u>	<u>Transfers Out</u>	
B. Transfers In/Out			
Governmental funds			
General fund	\$ 33,511		\$25,000 indirect cost
General fund		271,468	Support to other funds
School Food Service Fund		25,000	Indirect costs
Vocational Education Fund	252,876		Support from general fund
Other governmental funds	18,592	8,511	Support from general fund
Total Transfers In/Out	<u>\$ 304,979</u>	<u>\$ 304,979</u>	

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets

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

	Balance 7/1/2004	Additions	Retirements	Adjustments	Balance 6/30/2005
Non-Depreciable Assets					
Land	183,425	-	-		183,425
Total Non-Depreciable Assets:	183,425	-	-	-	183,425
Depreciable Capital Assets:					
Buildings	11,525,536	-	-		11,525,536
Building improvements	375,330	-	-		375,330
Improvements other than Buildings	116,215	-	-		116,215
Mobile equipment	1,151,868	-	-	-	1,151,868
Furniture	440,602	14,919	(19,919)	5,200	440,802
Leased Equipment	148,850	-	-		148,850
Total Depreciable Capital Assets	13,758,401	14,919	(19,919)	5,200	13,758,601
Less: Accumulated Depreciation for:					
Buildings	1,869,672	220,072	-		2,089,744
Building Improvements	22,876	15,011			37,887
Improvements other than Buildings	4,649	4,649			9,298
Mobile Equipment	688,683	59,092	-	-	747,775
Furniture	291,565	32,160	(9,170)	669	315,224
Leased Equipment	19,138	19,138			38,276
Total Accumulated Depreciation	2,896,583	350,122	(9,170)	669	3,238,204
Total Depreciable Capital Assets (Net)	10,861,818	(335,203)	(10,749)	4,531	10,520,397
Governmental Activities Capital Assets (Net)	11,045,243	(335,203)	(10,749)	4,531	10,703,822

Adjustments were made to record copier and associated depreciation omitted from prior year's report.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 237,043
Support services	104,142
Non-instructional	8,937
Total Depreciation Expense	\$ 350,122

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities

The following is a summary of changes in general long-term debt and other obligations:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. General Obligation Refunding Bonds	\$ 1,465,000	-	190,000	1,275,000	195,000
B. Limited obligation bonds payable	3,965,000	-	205,000	3,760,000	215,000
C. Three mill notes payable	2,660,000	-	117,998	2,542,002	141,000
D. Obligation under energy efficiency lease	555,656	-	36,844	518,812	49,256
E. Compensated absences	197,671	-	35,799	161,872	-
	<u>\$ 8,843,327</u>	<u>-</u>	<u>585,641</u>	<u>8,257,686</u>	<u>600,256</u>

A. General obligation bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Description	Rate	Date	Date	Issued	Outstanding
General Obligation School Refunding Bonds - Series 2004	Varies	2/1/2004	3/1/2011	\$ 1,465,000	\$ 1,275,000
Total				<u>\$ 1,465,000</u>	<u>\$ 1,275,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 195,000	33,045	228,045
2007	200,000	29,535	229,535
2008	210,000	25,035	235,035
2009	215,000	19,785	234,785
2010	225,000	13,765	238,765
2011	230,000	7,015	237,015
Total	<u>\$ 1,275,000</u>	<u>128,180</u>	<u>1,403,180</u>

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities (Continued)

A. General obligation bonds (continued)

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statute, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 1.94% of property assessments as of October 1, 2004. This debt will be retired from the District Maintenance 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:

<u>Description</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
State aid capital improvement	Varies	4/1/1998	4/1/2018	\$ 4,615,000	3,760,000
Total				<u>\$ 4,615,000</u>	<u>\$ 3,760,000</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	\$ 215,000	176,058	391,058
2007	230,000	164,770	394,770
2008	240,000	154,650	394,650
2009	250,000	144,090	394,090
2010	260,000	132,840	392,840
2011-2015	1,490,000	472,910	1,962,910
2016-2018	1,075,000	103,788	1,178,788
Total	<u>\$ 3,760,000</u>	<u>1,349,106</u>	<u>5,109,106</u>

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

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-term liabilities (Continued)

C. Three-mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Transportation Loan	5.00%	8/1/2002	6/1/2012	\$ 400,000	355,000
Building Loan	4.00-4.50%	8/1/2002	6/1/2010	770,000	505,000
Building Loan	4.75-5.10%	8/1/2002	8/1/2022	1,655,000	1,655,000
Transportation Loan	4.00%	6/30/2003	7/1/2007	40,000	27,002
				<u>\$ 2,865,000</u>	<u>2,542,002</u>

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

Year Ending June 30,	Principal	Interest	Total
2006	141,000	119,721	260,721
2007	146,000	113,493	259,493
2008	140,000	106,703	246,703
2009	145,000	100,203	245,203
2010	155,000	93,353	248,353
2011-2015	575,000	393,558	968,558
2016-2020	840,000	229,813	1,069,813
2021-2022	400,002	30,756	430,758
Total	<u>\$ 2,542,002</u>	<u>1,187,600</u>	<u>3,729,602</u>

This debt will be retired from the Three Mill Debt Retirement Fund and EEF Buildings and Bus Fund.

(5) Long-term liabilities (Continued)

D. Obligation under energy efficiency lease.

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

Year Ending June 30,	Principal	Interest	Total
2006	49,256	22,622	71,878
2007	51,627	20,251	71,878
2008	54,111	17,766	71,877
2009	56,716	15,162	71,878
2010	59,446	12,432	71,878
2011-2015	247,656	23,053	270,709
Total	<u>\$ 518,812</u>	<u>111,286</u>	<u>630,098</u>

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-Term Liabilities (Continued)

D. Obligations under energy efficiency lease (continued)

An energy efficiency lease agreement dated March 4, 2003, was executed by and between the district, the lessee, and The Renasant Bank lessor.

The agreement authorized the borrowing of \$587,043, but only \$572,348 was drawn down, for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and shall not exceed ten (10) years.

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

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

This debt will be retired from the District Maintenance Fund.

E. 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.

(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 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 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 are established and may be amended only by the State of Mississippi Legislature. The Prentiss County School District's contributions to PERS for the years ending June 30, 2005, 2004, and 2003, were \$999,197, \$998,382, and \$940,895, respectively, equal to the required contributions for each year.

(8) 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.

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(9) Contingencies

The school district receives Federal Grants for specific purposes that are subject to review and audit by Federal agencies. Such audits could result in a requirement for reimbursement by the Federal agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the school district, such disallowances, if any, would not be significant to the district's financial statements.

(10) Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

	Statement of Activities	Statement of Revenues, Expenditures, and Fund Balance
Correction of Prior Year Receivable	\$ 8,480	\$ 8,480
Investment Omitted on Prior Reports	(4,800)	(4,800)
Add Fixed Asset Previously omitted	(4,531)	-
To Close Capital Projects Fund - Bus Shop Bldg	(1,095)	(1,095)
Total	\$ (1,946)	\$ 2,585

(11) Vocational School Consortium

The school district entered into a Vocational Education Agreement dated August 20, 1980, creating the Prentiss County Vocational Technical Center. This center was created pursuant to the provision of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The center includes the Prentiss County School District and the Booneville School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operations of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

The Prentiss County School District has been designated as the fiscal agent for the Prentiss County Vocational Technical Center and the operations of the consortium are included in its financial statements.

**PRETISS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(11) Vocational School Consortium (continued)

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Prentiss County Vocational Technical Center.

**Statement of Revenues , Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005**

Revenues

Local sources	
Tuition from other LEA's within the state:	
Booneville School District	\$ 108,758
State sources	1,079,948
Federal sources	53,639
Total Revenues	<u>1,242,345</u>

Expenditures

Salaries	1,209,161
Employee benefits	213,866
Purchase of professional and technical services	-
Purchased property services	20,982
Other purchased services	1,299
Property	12,765
Supplies	230
Total Expenditures	<u>1,458,303</u>
Excess of Revenue Over (Under) Expenditures	<u>(215,958)</u>

Other Financing Sources/Uses:

Operating transfers in	252,876
Total Other Financing Sources/Uses	<u>252,876</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>36,918</u>

Fund Balance:

July 1, 2004	-
--------------	---

PRETISS COUNTY SCHOOL DISTRICT

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Prentiss County School District
 Budgetary Comparison Schedule for the General Fund
 For the year ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 3,375,779	3,255,152	3,255,152	(120,627)	-
State Sources	9,490,025	9,475,332	9,475,332	(14,693)	-
Federal Sources	97,683	151,823	151,823	54,140	-
Total Revenues	12,963,487	12,882,307	12,882,307	(81,180)	-
Expenditures					
Instruction	8,134,874	8,223,253	8,242,731	(88,379)	(19,478)
Support Services	3,662,138	3,716,220	3,701,311	(54,082)	14,909
Noninstructional Services	274,550	275,733	275,733	(1,183)	-
Facilities Acquisition and Construction	-	2,000	-	(2,000)	2,000
Debt Service:					
Principal	222,367	245,318	239,842	(22,951)	5,476
Interest	99,511	41,777	55,903	57,734	(14,126)
Total Expenditures	12,393,440	12,504,301	12,515,520	(110,861)	(11,219)
Excess (Deficiency) of Revenues over Expenditures	570,047	378,006	366,787	(192,041)	(11,219)
Other Financing Sources (Uses)					
Operating Transfers In	20,150	45,259	33,511	25,109	(11,748)
Operating Transfers Out	(590,197)	(283,216)	(271,468)	306,981	11,748
Total Other Financing Sources (Uses)	(570,047)	(237,957)	(237,957)	(332,090)	-
Net Change in Fund Balances	-	140,049	128,830	140,049	(11,219)
Fund Balances					
July 1, 2004	417,358	417,358	417,359	-	1
Prior Period Adjustments	-	-	-	-	-
July 1, 2004, restated	417,358	417,358	417,359	-	1
June 30, 2005	\$ 417,358	557,407	546,189	140,049	(11,218)

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

Prentiss County School District
 Budgetary Comparison Schedule for the School Food Service Fund
 For the Year Ended June 30, 2005

Schedule 1
 Continued

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 377,050	387,022	387,023	9,972	1
State Sources	6,200	6,121	6,121	(79)	-
Federal Sources	724,000	862,215	862,215	138,215	-
Total Revenues	1,107,250	1,255,358	1,255,359	148,108	1
Expenditures					
Support Services	58,676	62,155	62,155	(3,479)	-
Noninstructional Services	1,021,224	1,053,955	1,053,955	(32,731)	-
Total Expenditures	1,079,900	1,116,110	1,116,110	(36,210)	-
Excess (Deficiency) of Revenues over Expenditures	27,350	139,248	139,249	111,898	1
Other Financing Sources (Uses)					
Sale of capital assets	-	605	605	605	-
Operating Transfers Out	(20,000)	(25,000)	(25,000)	(5,000)	-
Total Other Financing Sources (Uses)	(20,000)	(24,395)	(24,395)	(4,395)	-
Net Change in Fund Balance	7,350	114,853	114,854	107,503	1
Fund Balances					
July 1, 2004	206,005	206,005	206,004	-	(1)
Increase in Reserve For Inventory	-	-	711	-	711
June 30, 2005	\$ 213,355	\$ 320,858	\$ 321,569	\$ 107,503	711

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

Prentiss County School District
 Budgetary Comparison Schedule for the Vocational Education Fund
 For the Year Ended June 30, 2005

Schedule 1
 Continued

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ -	108,758	108,758	108,758	-
State Sources	1,058,568	1,043,029	1,079,948	(15,539)	36,919
Federal Sources	53,162	53,639	53,639	477	-
Total Revenues	1,111,730	1,205,426	1,242,345	93,696	36,919
Expenditures					
Instruction	1,217,831	1,206,380	1,206,380	11,451	-
Support Services	231,752	251,923	251,923	(20,171)	-
Total Expenditures	1,449,583	1,458,303	1,458,303	(8,720)	-
Excess (Deficiency) of Revenues over Expenditures	(337,853)	(252,877)	(215,958)	84,976	36,919
Other Financing Sources(Uses)					
Operating Transfers In	339,466	252,876	252,876	(86,590)	
Total Other Financing Sources Uses	339,466	252,876	252,876	(86,590)	
Net Change in Fund Balance	1,613	(1)	36,918	(1,614)	36,919
Fund Balances					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ 1,613	(1)	36,918	(1,614)	36,919

The notes to the supplementary information is an integral part of this statement

**PRENTISS COUNTY SCHOOL DISTRICT
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Basis of Presentation

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

(2) Budget amendments and revisions

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

(3) Individual Fund Disclosures

The general fund has an excess of expenditures over budget in the amount of \$11,218. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash Assistance:		
Food donation	10.550	\$ 57,162
Child Nutrition Cluster:		
School breakfast program	10.553	291,620
National school lunch program	10.555	429,272
Total Child Nutrition Cluster		<u>720,892</u>
Total Passed-through MDE		<u>778,054</u>
Total U.S. Department of Agriculture		<u>778,054</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Special Education Cluster:		
Special education - grants to states	84.027	666,045
Special education - preschool grants	84.173	47,130
Total Special Education Cluster		<u>713,175</u>
Vocational education - basic grants to states	84.048	53,639
Improving Teacher Quality -		
State Grants	84.367	203,719
Title I grants to local educational agencies	84.010	550,331
State grants for innovative programs	84.298	10,443
Safe and drug-free schools and and communities - state grants	84.186	19,214
Comprehensive school reform demonstration	84.332	39,391
Education technology state grants	84.318	10,980
Teacher quality enhancement grants	84.336	1,400
Transition to teaching	84.350	1,400
Total Passed-through MDE		<u>1,603,692</u>
Passed-through Alcorn County School District		
21st century learning centers	84.287	82,522
Total Passed-through Alcorn County School District		<u>82,522</u>
Total U.S. Department of Education		<u>1,686,214</u>
Corporation for National and Community Service		
Passed-through the Mississippi Department of Education:		
Learn and serve America-school and community based programs	94.004	8,000
Total Corporation for National and Community Service		<u>8,000</u>
Total for All Federal Awards		<u>\$ 2,472,268</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.

Prentiss County School District
 Schedule of Instructional, Administrative and Other Expenses-Governmental Funds
 June 30, 2005

Schedule 2

<u>Expenditures</u>	<u>Total</u>	<u>Instructional</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,394,871	9,690,338	1,363,215	2,341,318
Other	3,975,765	963,905	189,146	2,822,714
 Total	 <u>\$ 17,370,636</u>	 <u>10,654,243</u>	 <u>1,552,361</u>	 <u>5,164,032</u>
 Total number of students*	 <u>2,234</u>			
 Cost per student	 <u>\$ 7,776</u>	 <u>4,769</u>	 <u>695</u>	 <u>2,312</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 (2300's); Support Services- School Administration (2400's); Business Services (2500's)

Other - includes expenditures for the following functions: support services - general administration (2300s); support services - school administration (2400s) and support services - business (2500s).

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



Certified Public Accountants

A. Braddock Brawner, CPA
W. T. Vanstory, CPA
Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA

Christopher D. Murphy, CPA
Brenda G. Nichols, CPA

512 Taylor Street
AmSouth Bank Building
Post Office Box 458
Corinth, Mississippi 38835
Telephone (662) 286-7082
Fax (662) 286-3365

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

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

Superintendent and School Board
Prentiss County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Prentiss County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 operation 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 judgment, could adversely affect Prentiss County School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 2005-1.

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 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 that are also considered to be material weaknesses. However, the reportable condition described in the finding referred to above is considered to be 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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*. We also noted certain instances of noncompliance that we have reported to management of the school district in a separate letter dated October 16, 2006.

This report is intended solely for the information and use of the school board, 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.

Brawner, Vanstory & Co. P.A.

October 16, 2006
Booneville, Mississippi

PRETISS COUNTY SCHOOL DISTRICT

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Certified Public Accountants

A. Braddock Brawner, CPA
William T. Vanstory, CPA
Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA

Christopher D. Murphy, CPA
Brenda G. Nichols, CPA

512 Taylor Street
AmSouth Bank Building
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Telephone (662) 286-7082
Fax (662) 286-3365

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
F ax (662) 728-6176

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

Superintendent and School Board
Prentiss County School District

Compliance

We have audited the compliance of the Prentiss County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditors' results section of the 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 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 Prentiss 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 Prentiss County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the school board, 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

Brauner, Vanotay & Co P.A

October 16, 2006
Booneville, Mississippi



Certified Public Accountants

A. Braddock Brawner, CPA
William T. Vanstory, CPA
Lou Ann D. Counce, CPA
Terry E. Cartwright, CPA

Christopher D. Murphy, CPA
Brenda G. Nichols, CPA

512 Taylor Street
AmSouth Bank Building
Post Office Box 458
Corinth, Mississippi 38835
Telephone (662) 286-7082
Fax (662) 286-3365

106 South First Street
Post Office Box 540
Booneville, Mississippi 38829
Telephone (662) 728-6172
Fax (662) 728-6176

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Prentiss County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Prentiss County School District as of and for the year ended June 30, 2005, which collectively comprise Prentiss County School District's basic financial statements, and have issued our report thereon dated October 16, 2006. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and 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 37-91-33(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 an 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 the following instances of noncompliance. The noncompliance is reported in Finding Number 1 below. The district reported \$30,057 of classroom supply funds carried over from previous years.

Finding 1:

- (1) The District failed to maintain adequate records to substantiate each individual teacher's allocation and the carryforward amount for each teacher.
- (2) The teachers failed to remain within their individual allotments.
- (3) All records for shared expenditures were not available

Recommendations:

We recommend the District review the policies and procedures at each school for recordkeeping for the EEF Supply Funds, and implement a standardized system that complies with State regulations.

Response:

We are in the process of reviewing the record keeping on the EEF funds and plan to have workshops with the school secretaries at each school. We will use a standardized system that complies with state regulations.

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

Finding 2:

Section 37-9-21, Miss. Code Ann. (1972) prohibits members of a school board from voting on employment of certified employees who are related within three degrees by blood or marriage.

Adequate controls were not in place to prevent a member of the Board of Education from voting three separate times on personnel matters involving direct familial relationships.

Section 37-9-21, Miss. Code Ann. (1972) states contracts with employees in violation of this section are null and void.

Recommendation:

All members of the Board of Education should be familiar with this code section and refrain from voting when there is a conflict.

Response:

All board members are well aware that they should not vote on employment of certified employees who are related within three degrees by blood. This will be monitored to make sure it doesn't happen again.

The office of the State Auditor or a public accounting firm will review on the subsequent years audit engagement, the findings in this report to ensure 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.

Brauer, Kinsey & Co. P.A

October 16, 2006
Booneville, Mississippi

**PRETISS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

Cluster: Special Education

CFDA# 84.027

CFDA# 84.173

Title I Grants to Local Educational Agencies

CFCA# 84.010

- | | | |
|-----|--|-----------|
| 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 |

**PRENTISS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 2: Financial Statement Findings – Internal Controls- Material Weakness

Finding 2005-1

Finding:

Bank reconciliations were not timely and completely performed or reviewed to insure that all funds were transferring the correct amounts to the clearing accounts.

Reconciliations for the payroll clearing fund and the accounts payable clearing fund were not properly prepared, balanced, and adjusted as necessary. These accounts have unidentified reconciling differences of \$1,799.68 and \$12,845.98, respectively.

There was no evidence that these reconciliations were reviewed. This allowed the unbalanced reconciliations to continue without being reconciled and corrected.

Additionally, deficiencies were reported in bank reconciliations in prior years.

Recommendation:

All bank accounts should be reconciled monthly. All items should be posted monthly and any corrections required to be made should be made on a monthly basis. Allowing items to go uncorrected leads to possibilities that intentional errors or losses could occur. All bank reconciliations should be reviewed monthly to insure that they are being properly performed. Bank reconciliations should be performed by someone not directly involved in disbursing funds on those accounts.

Section 4 Federal Award Findings and Questioned Costs

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

Prentiss County School District

PRENTISS COUNTY

Kenneth Chism, Superintendent
P.O. Box 179 - 105 North College
BOONEVILLE, MISSISSIPPI 38829

CORRECTIVE ACTION PLAN

As required by U. S. Office of Management and Budget a-133, Prentiss 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

A.

Contact Person: Annie Rea Michael
Business Manager
P. O. Box 179
105 North College Street
Booneville, MS
662-728-6845

2005-1

B. We have another employee reconciling the accounts payable and payroll clearing bank statements monthly. All items are posted monthly and corrections are made. We have more than one person reviewing these bank statements.

C. Implemented upon notification of the finding.

Prentiss County School District

PRENTISS COUNTY

Kenneth Chism, Superintendent
P.O. Box 179 - 105 North College
BOONEVILLE, MISSISSIPPI 38829

PRIOR AUDIT FINDINGS

As required by Section __.315 (c) of OMB Circular A-133, the Prentiss County School District has prepared and hereby submits the following status of findings as of June 30, 2005:

<u>FINDING</u>	<u>STATUS</u>
2004-1	Still a finding.