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RIGHTON SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Year Ended June 30, 2005



**Nicholson &
Company, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS/FINANCIAL CONSULTANTS

RIGHTON SCHOOL DISTRICT

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NICHOLSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
131 SOUTH 28TH AVENUE
P.O. DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
FAX 601-264-3642

CARL L. NICHOLSON, JR., CPA
RICHARD D. HALBERT, CPA
RICHARD G. TOPP, CPA
FRANK H. McWHORTER, JR., CPA
T. JOHN HARVEY, CPA
WILLIAM T. KELLY, CPA, CVA
SUSAN A. RILEY, CPA
DAWN T. JONES, CPA
MICHAEL W. DAVIS, CPA
DONALD J. NESTER, CPA
GREGORY L. FAIREY, CPA
JEFFREY M. ALLEN, CPA
PAIGE MILLSAP, CPA
SHANNON J. JONES, CPA
RAMONA J. STEVENS, CPA
ELLEN A. BEVON, CPA
JANICE M. BATES, CPA
JOE C. TRAVIS, CPA
LISA M. HANSON, CPA

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

MISSISSIPPI SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE 601-736-3449
FAX 601-736-0501

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

Richton School District Board of Education
Richton, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Richton School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Richton 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 Richton School District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Richton School District Board of Education
Richton, Mississippi

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005, on our consideration of the Richton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nichelson & Company, P.A.

Hattiesburg, Mississippi
August 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

**RIGHTON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Richton School District's financial performance provides an overall narrative review of the School District's financial activities for the years ended June 30, 2005 and 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets for the school district were \$2,701,928 and \$2,745,171 at June 30, 2005 and 2004, respectively, which represents a decrease of 1.6% from fiscal year 2004.

General revenues account for \$4,000,071 and \$3,995,512 in revenue, or 79.8% and 78.0% of all revenues for the years ended June 30, 2005 and 2004, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,011,385 and \$1,123,684 or 20.2% and 22.0% of total revenues for the years ended June 30, 2005 and 2004, respectively.

For the years ended June 30, 2005 and 2004, the District had \$5,054,699 and \$5,011,775 in expenses; only \$1,011,385 and \$1,123,684 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$4,000,071 and \$3,995,512 provided most of the remaining funding for these programs.

For the years ended June 30, 2005 and 2004, among major funds, the General Fund had \$3,788,382 and \$3,832,087 in revenues and \$3,850,783 and \$3,879,369 in expenditures. The General Fund's fund balance increased \$12,776 from \$682,740 at June 30, 2004 to \$695,516 at June 30, 2005.

Capital assets, net of accumulated depreciation, were \$3,135,345 and \$3,240,853 at June 30, 2005 and 2004, respectively. This decrease is due to depreciation expense.

Long-term debt was \$1,538,653 and \$1,681,857 at June 30, 2005 and 2004, respectively. This decrease is primarily due to scheduled debt principal payments made throughout the year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 10 - 11 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 17, respectively.

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

The basic governmental fund financial statements can be found on pages 12 - 13 and 15 - 16 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 a separate Statement of Net Assets – Fiduciary Funds on page 18.

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 19 - 34 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and for the Title I Fund. This required supplementary information can be found on pages 35 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on pages 40 - 41 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 \$2,701,928 and \$2,745,171 as of June 30, 2005 and 2004, respectively.

By far the largest portion of the District's net assets (60.9%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, 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 and 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 1,422,228	\$ 1,529,960
Capital assets, net	3,135,345	3,240,853
Total assets	<u>4,557,573</u>	<u>4,770,813</u>
Current liabilities	316,992	343,785
Long-term debt outstanding	1,538,653	1,681,857
Total liabilities	<u>1,855,645</u>	<u>2,025,642</u>
Net assets:		
Invested in capital assets, net of related debt	1,641,345	1,605,853
Restricted	409,720	503,435
Unrestricted	650,863	635,883
Total net assets	<u>\$ 2,701,928</u>	<u>\$ 2,745,171</u>

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 and 2004 were \$5,011,456 and \$5,119,196, respectively. The total cost of all programs and services was \$5,054,699 and \$5,011,775. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues	\$ 1,011,385	\$ 1,123,684
General revenues	4,000,071	3,995,512
Total revenues	<u>5,011,456</u>	<u>5,119,196</u>
Expenses:		
Instruction	3,126,290	3,108,120
Support services	1,475,582	1,491,576
Non-instructional	386,998	319,125
Sixteenth section	868	13,778
Interest on long-term liabilities	64,961	79,176
Total expenses	<u>5,054,699</u>	<u>5,011,775</u>
(Decrease) Increase in net assets	<u>\$ (43,243)</u>	<u>\$ 107,421</u>

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

June 30, 2005		
	Total Expenses	Net (Expense) Revenue
Instruction	\$ 3,126,290	\$ (2,585,017)
Support services	1,475,582	(1,343,476)
Non-instructional	386,998	(48,992)
Sixteenth section	868	(868)
Interest on long-term liabilities	64,961	(64,961)
Total expenses	\$ 5,054,699	\$ (4,043,314)
June 30, 2004		
	Total Expenses	Net (Expense) Revenue
Instruction	\$ 3,108,120	\$ (2,543,540)
Support services	1,491,576	(1,286,079)
Non-instructional	319,125	18,717
Sixteenth section	13,778	1,987
Interest and other expenses on long-term debt	79,176	(79,176)
Total expenses	\$ 5,011,775	\$ (3,888,091)

Net cost of governmental activities amounted to \$4,043,314 and \$3,888,091 for the years ended June 30, 2005 and 2004, respectively. It was financed by general revenue, which is made up of primarily property taxes \$531,654 and \$533,732 and state revenue of \$3,369,738 and \$3,281,104 for the years ended June 30, 2005 and 2004, respectively.

Investment earnings accounted for \$8,686 and \$8,908 of funding for the years ended June 30, 2005 and 2004, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,147,926 as of June 30, 2005 and \$1,236,114 as of June 30, 2004, a decrease of \$85,988. \$945,332 and \$1,020,514 or 82.4% and 82.6% of the fund balance constitutes unreserved and undesignated fund balance as of June 30, 2005 and 2004, respectively, which is available for spending at the District's discretion. The remaining fund balance of \$202,594 and \$215,600 or 17.6% and 17.4% as of June 30, 2005 and 2004, respectively, is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$12,776. The fund balance in the Title I Fund was unchanged from the prior year. The fund balance in the MAEP Retirement fund decreased by \$4,800. The fund balance of Other Governmental Funds showed a decrease of \$93,964.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. There were no revisions that are considered significant.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005 and 2004, the District's total capital assets were \$5,450,091 and \$5,450,091, respectively, including school buildings, buses, other school vehicles and furniture and equipment. This amount is unchanged from the previous year. Total accumulated depreciation as of June 30, 2005 and 2004 was \$2,314,746 and \$2,209,238 and total depreciation expense for the year was \$105,508 and \$125,839, resulting in total net capital assets of \$3,135,345 and \$3,240,853, respectively.

Additional information of the District's capital assets can be found in Note 4 on pages 28 - 29 of this report.

Debt Administration. At June 30, 2005 and 2004, the District had \$1,538,653 and \$1,681,857 in general obligation bonds and other long-term debt outstanding, of which \$148,000 and \$141,000, respectively, is due within one year.

Additional information of the District's long-term debt can be found in Note 5 on pages 30 - 32 of this report.

CURRENT ISSUES

The Richton School District is financially stable. The District is proud of its community support of the public schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Richton School District, Post Office Box 568, Richton, Mississippi 39476.

BASIC FINANCIAL STATEMENTS

EXHIBIT A

RICHTON SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 1,255,226
Due from other governments	143,846
Accrued interest receivable	185
Inventories and prepaid items	9,081
Restricted assets (Note 2)	13,890
Capital assets, net (Note 4)	3,135,345
Total assets	<u>\$ 4,557,573</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 15,127
Due to other governments	258,474
Deferred revenue	701
Interest payable on long-term liabilities	42,690
Long-term liabilities (Note 5):	
Due within one year:	
Capital related liabilities	148,000
Due beyond one year:	
Capital related liabilities	1,346,000
Non-capital related liabilities	44,653
Total liabilities	<u>\$ 1,855,645</u>
NET ASSETS	
Investment in capital assets, net of related debt	\$ 1,641,345
Restricted net assets:	
Expendable:	
School-based activities	189,961
Debt service	150,823
Forestry improvements	37,177
Unemployment benefits	17,869
Non-expendable:	
Sixteenth section	13,890
Unrestricted	650,863
Total net assets	<u>\$ 2,701,928</u>

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

EXHIBIT C

RICHTON SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Major Funds			MAEP Debt Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund				
ASSETS						
Cash and cash equivalents (Note 2)	\$ 805,533	\$ -	\$ 155,408	\$ 308,087	\$ 1,269,028	
Due from other governments	69,098	33,285	-	41,463	143,846	
Accrued interest receivable	185	-	-	88	273	
Due from other funds (Note 3)	49,127	-	-	2,414	51,541	
Inventories and prepaid items	-	-	-	9,081	9,081	
Total assets	\$ 923,943	\$ 33,285	\$ 155,408	\$ 361,133	\$ 1,473,769	

LIABILITIES AND FUND BALANCES

LIABILITIES					
Accounts payable and accrued liabilities	\$ 10,345	\$ -	\$ -	\$ 4,782	\$ 15,127
Due to other funds (Note 3)	218,082	33,285	-	58,648	310,015
Deferred revenue	-	-	-	701	701
Total liabilities	228,427	33,285	-	64,131	325,843

RICHTON SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Major Funds			MAEP Debt Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund				
FUND BALANCES						
Reserved for:						
Inventory	\$ -	\$ -	\$ -	\$ 9,081	\$ 9,081	\$ 9,081
Debt service funds	-	-	155,408	38,105	193,513	193,513
Unreserved:						
Undesignated, reported in:						
General fund	695,516	-	-	-	695,516	695,516
Special revenue fund	-	-	-	235,926	235,926	235,926
Permanent funds	-	-	-	13,890	13,890	13,890
Total fund balances	<u>695,516</u>	<u>-</u>	<u>155,408</u>	<u>297,002</u>	<u>1,147,926</u>	<u>1,147,926</u>
Total liabilities and fund balances	<u>\$ 923,943</u>	<u>\$ 33,285</u>	<u>\$ 155,408</u>	<u>\$ 361,133</u>	<u>\$ 1,473,769</u>	<u>\$ 1,473,769</u>

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

EXHIBIT C-1

RICHTON SCHOOL DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Amount</u>
Total fund balance - governmental funds	\$ 1,147,926
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,314,746.	3,135,345
2. Interest payable on long-term liabilities is not normally liquidated with current financial resources and therefore are not reported in the funds.	(42,690)
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,538,653)</u>
Total net assets of governmental activities	<u>\$ 2,701,928</u>

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

EXHIBIT D

RIGHTON SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Major Funds				Total Governmental Funds
	General Fund	Title I Fund	MAEP Debt Fund	Other Governmental Funds	
REVENUES					
Local sources	\$ 632,884	-	\$ 321	\$ 136,419	\$ 769,624
State sources	3,119,846	-	140,000	204,073	3,463,919
Federal sources	35,652	240,092	-	493,882	769,626
Sixteenth section sources	-	-	-	8,287	8,287
Total revenues	3,788,382	240,092	140,321	842,661	5,011,456
EXPENDITURES					
Instruction	2,525,467	201,541	-	346,000	3,073,008
Support services	1,319,892	32,122	-	100,731	1,452,745
Non-instructional services	5,424	-	-	352,189	357,613
Sixteenth section	-	-	-	868	868
Debt service:					
Principal	-	-	100,000	41,000	141,000
Interest	-	-	45,121	27,089	72,210
Total expenditures	3,850,783	233,663	145,121	867,877	5,097,444
Excess of revenues over (under) expenditures	(62,401)	6,429	(4,800)	(25,216)	(85,988)

RICHTON SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

	Major Funds				Total Governmental Funds
	General Fund	Title I Fund	MAEP Debt Fund	Other Governmental Funds	
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 88,177	\$ -	\$ -	\$ 44,000	\$ 132,177
Operating transfers out	(13,000)	(6,429)	-	(112,748)	(132,177)
Total other financing sources (uses)	<u>75,177</u>	<u>(6,429)</u>	<u>-</u>	<u>(68,748)</u>	<u>-</u>
Net change in fund balances	12,776	-	(4,800)	(93,964)	(85,988)
FUND BALANCES					
July 1, 2004	682,740	-	160,208	393,166	1,236,114
Decrease in reserve for inventory	-	-	-	(2,200)	(2,200)
JUNE 30, 2005	<u>\$ 695,516</u>	<u>\$ -</u>	<u>\$ 155,408</u>	<u>\$ 297,002</u>	<u>\$ 1,147,926</u>

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

EXHIBIT D-1

RICHTON SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

	<u>AMOUNT</u>
Net change in fund balances – governmental funds	\$ (85,988)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchase amounted to \$-0- and the depreciation expense amounted to \$105,508.	(105,508)
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.	141,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	7,249
4. The decrease in accrued compensated absences is reported as a decrease in expenditures in the statement of activities but is included as an expenditure in the governmental funds.	2,204
5. The decrease in inventories is reported as an adjustment to fund balance in the governmental funds but non-instructional expenditures are increased in the statement of activities.	<u>(2,200)</u>
Change in net assets - governmental activities	<u>\$ (43,243)</u>

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

EXHIBIT E

RICHTON SCHOOL DISTRICT

**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 29,692
Due from other funds	258,474
<i>Total assets</i>	<u><u>\$ 288,166</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 267,321
Due to student clubs	20,845
<i>Total liabilities</i>	<u><u>\$ 288,166</u></u>

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

NOTES TO FINANCIAL STATEMENTS

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-Wide Financial Statements

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

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fund Financial Statements

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

C. *Measurement Focus and Basis of Accounting.*

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

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty (60) days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

Title I Fund – This fund is used to account for financial resources received and spent under the federal Title I grant program.

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

MAEP Debt Fund – This fund is used to account for financial resources to be used for the repayment of debt.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

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

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

RIGHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Capital Assets.

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

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

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0 years
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 4** for details.

J. Long-Term Liabilities.

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

K. Interfund Transactions and Balances.

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

L. Equity Classifications.

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

M. *Property Taxes.*

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

N. *Mississippi Adequate Education Program Revenues.*

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

O. *Compensated Absences.*

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

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. CHANGES IN ACCOUNTING STANDARDS.

As required, the School District has implemented 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.

NOTE 2 - CASH AND CASH EQUIVALENTS

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds were \$1,269,028 and \$29,692, respectively. The carrying amounts of deposits reported in the government wide statements was – Cash and cash equivalents, \$1,255,226 and Restricted assets, \$13,890. The Restricted assets represents the cash balance of the Sixteenth Section Principal Funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$1,607,677.

Custodial Credit Risk - Deposits - Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. As of June 30, 2005, the district's bank balance was not exposed to custodial credit risk.

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED JUNE 30, 2005

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

	<u>Due From</u>	<u>Due To</u>
A. DUE FROM/TO OTHER FUNDS		
Major funds:		
General fund	\$ 49,127	\$ 218,082
Title I fund	-	33,285
MAEP debt fund	-	-
Non-major funds	2,414	58,648
Fiduciary funds	258,474	-
Total funds	<u>\$ 310,015</u>	<u>\$ 310,015</u>

Due From/Due To Other Funds represent short term loans made between major funds and nonmajor, and agency funds to cover federal funds not received prior to year end for teacher payroll, for amounts due to Payroll Clearing account for teacher payroll, and for interest earned on Clearing accounts which are due to the District Maintenance account.

	<u>Transfers In</u>	<u>Transfers Out</u>
B. TRANSFERS IN/OUT		
Major funds:		
General fund	\$ 88,177	\$ 13,000
Title I fund	-	6,429
MAEP debt fund	-	-
Non-major funds	44,000	112,748
Total funds	<u>\$ 132,177</u>	<u>\$ 132,177</u>

Transfers were made from the Sixteenth Section Interest Fund to the District Maintenance Fund for proceeds from a timber sale, from the Unemployment Compensation Fund to maintain the balance of two percent (2%) of taxable wages, and to transfer indirect costs from the Title and Special Education Funds to the District Maintenance Fund.

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE TEN
YEAR ENDED JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Balance 6/30/2005
Non-Depreciable Capital					
Land	\$ 108,253	\$ -	\$ -	\$ -	\$ 108,253
Construction in progress	-	-	-	-	-
Total non-depreciable capital assets	<u>108,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,253</u>
Depreciable Capital Assets					
Buildings	4,437,565	-	-	-	4,437,565
Improvements other than buildings	247,808	-	-	-	247,808
Mobile equipment	454,641	-	-	-	454,641
Furniture and equipment	201,824	-	-	-	201,824
Total depreciable capital assets	<u>5,341,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,341,838</u>
Less accumulated depreciation for:					
Buildings	1,709,325	65,284	-	-	1,774,609
Improvements other than buildings	39,649	9,912	-	-	49,561
Mobile equipment	328,383	12,033	-	-	340,416
Furniture and equipment	131,881	18,279	-	-	150,160
Total accumulated depreciation	<u>2,209,238</u>	<u>105,508</u>	<u>-</u>	<u>-</u>	<u>2,314,746</u>
Total depreciable capital assets, net	<u>3,132,600</u>	<u>(105,508)</u>	<u>-</u>	<u>-</u>	<u>3,027,092</u>
Governmental activities capital assets, net	<u>\$ 3,240,853</u>	<u>\$ (105,508)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,135,345</u>

RIGHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 55,486
Support services	22,837
Non-instructional	<u>27,185</u>
<i>Total depreciation expense</i>	<u>\$ 105,508</u>

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

RICHTON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts Due Within 1 Year
A. Limited obligation bonds payable	\$ 990,000	-	\$ 100,000	\$ 890,000	\$ 105,000
B. Three mill notes payable	645,000	-	41,000	604,000	43,000
C. Compensated absences payable	46,857	-	2,204	44,653	-
Total	\$ 1,681,857	\$ -	\$ 143,204	\$ 1,538,653	\$ 148,000

A. LIMITED OBLIGATION BONDS PAYABLE.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bond Series 1998	4.80%	4/1/1998	8/1/2013	\$ 1,235,000	\$ 890,000
Total				\$ 1,235,000	\$ 890,000

RICHTON SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE THIRTEEN
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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	\$ 105,000	\$ 40,200	\$ 145,200
2007	110,000	35,040	145,040
2008	115,000	29,640	144,640
2009	80,000	28,960	108,960
2010	90,000	24,960	114,960
2011 - 2015	390,000	59,520	449,520
2015 - 2020	-	-	-
Total	<u>\$ 890,000</u>	<u>\$ 218,320</u>	<u>\$ 1,108,320</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 improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Debt Retirement Fund.

B. THREE MILL NOTES PAYABLE.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Series 2002	4.20%	7/15/2002	7/15/2017	\$ 650,000	\$ 604,000

RICHTON SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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	\$ 43,000	\$ 25,972	\$ 68,972
2007	45,000	24,123	69,123
2008	47,000	22,188	69,188
2009	50,000	20,636	70,636
2010	48,000	10,575	58,575
2011 – 2015	229,000	63,729	292,729
2015 – 2020	142,000	19,125	161,125
Total	\$ 604,000	\$ 186,348	\$ 790,348

These debts will be retired from the Short-term Loan and Interest Fund.

C. COMPENSATED ABSENCES PAYABLE.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employee's salaries were paid.

NOTE 6 - DEFINED BENEFIT PENSION PLAN

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

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED JUNE 30, 2005

NOTE 6 - DEFINED BENEFIT PENSION PLAN (Cont.)

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$287,872, \$288,624, and \$273,043 respectively, which equaled the required contributions for each year.

NOTE 7 - SIXTEENTH SECTION LANDS

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising there from as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The future rental payments to be made to the school district for the use of school trust lands is \$7,527 for each of the two (2) years covered by the lease ending June 30, 2006. These future rental payments are from existing leases and do not anticipate renewals or new leases.

NOTE 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. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool - The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool

RICHTON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED JUNE 30, 2005

NOTE 8 - RISK MANAGEMENT (Cont.)

and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

NOTE 9 - SUBSEQUENT EVENT

Subsequent to year-end, the Richton School District facilities were damaged by hurricane Katrina. At the current time, the District cannot determine the exact dollar amount of the damage sustained or the ultimate economic loss that may be experienced by the District after payments are received from insurance carriers and from the Federal Emergency Management Agency.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

RICHTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>	
	<u>Original</u>	<u>Final</u>
REVENUES		
Local sources	\$ 609,249	\$ 636,186
State sources	3,101,165	3,121,245
Federal sources	1,000	31,000
Total revenues	<u>3,711,414</u>	<u>3,788,431</u>
EXPENDITURES		
Instruction	2,589,442	2,528,748
Support services	1,305,874	1,329,274
Non-instructional services	4,200	5,637
Total expenditures	<u>3,899,516</u>	<u>3,863,659</u>
Excess (deficiency) of revenues over expenditures	<u>(188,102)</u>	<u>(75,228)</u>
OTHER FINANCING SOURCES (USES)		
Sale of other property	500	500
Operating transfers in	88,177	88,177
Transfers out	(6,000)	(13,000)
Total other financing sources and uses	<u>82,677</u>	<u>75,677</u>
Net change in fund balances	(105,425)	449
FUND BALANCES		
July 1, 2004	<u>576,223</u>	<u>585,041</u>
June 30, 2005	<u>\$ 470,798</u>	<u>\$ 585,490</u>

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

Actual (GAAP Basis)	Variances Positive (Negative)	
	Original To Final	Final To Actual
\$ 632,884	\$ 26,937	\$ (3,302)
3,119,846	20,080	(1,399)
35,652	30,000	4,652
<u>3,788,382</u>	<u>77,017</u>	<u>(49)</u>
2,525,467	60,694	3,281
1,319,892	(23,400)	9,382
5,424	(1,437)	213
<u>3,850,783</u>	<u>35,857</u>	<u>12,876</u>
<u>(62,401)</u>	<u>112,874</u>	<u>(12,827)</u>
-	-	(500)
88,177	-	-
(13,000)	(7,000)	-
<u>75,177</u>	<u>(7,000)</u>	<u>(500)</u>
12,776	105,874	(12,327)
<u>682,740</u>	<u>8,818</u>	<u>97,699</u>
<u>\$ 695,516</u>	<u>\$ 114,692</u>	<u>\$ (110,026)</u>

SCHEDULE 2

RIGHTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

TITLE I FUND

YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>	
	<u>Original</u>	<u>Final</u>
REVENUES		
Federal sources	\$ 289,938	\$ 289,938
Total revenues	<u>289,938</u>	<u>289,938</u>
EXPENDITURES		
Instruction	253,385	253,385
Support services	<u>30,124</u>	<u>30,124</u>
Total expenditures	<u>283,509</u>	<u>283,509</u>
Excess (deficiency) of revenues over expenditures	<u>6,429</u>	<u>6,429</u>
OTHER FINANCING SOURCES (USES)		
Transfers out	<u>(6,429)</u>	<u>(6,429)</u>
Total other financing sources and uses	<u>(6,429)</u>	<u>(6,429)</u>
Net change in fund balances	<u>-</u>	<u>-</u>
FUND BALANCES		
July 1, 2004	-	-
June 30, 2005	<u>\$ -</u>	<u>\$ -</u>

Actual (GAAP Basis)	Variances Positive (Negative)	
	Original To Final	Final To Actual
\$ 240,092	\$ -	\$ (49,846)
<u>240,092</u>	<u>-</u>	<u>(49,846)</u>
201,541	-	51,844
32,122	-	(1,998)
<u>233,663</u>	<u>-</u>	<u>49,846</u>
6,429	-	-
<u>(6,429)</u>	<u>-</u>	<u>-</u>
<u>(6,429)</u>	<u>-</u>	<u>-</u>
-	-	-
-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

RICHTON SCHOOL DISTRICT

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET AMENDMENTS AND REVISIONS

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

SUPPLEMENTAL INFORMATION

SCHEDULE 3

RICHTON SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture</i>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	<u>\$ 20,109</u>
Child nutrition cluster:		
School breakfast program	10.553	49,735
National school lunch program	10.555	<u>164,712</u>
Total		<u>214,447</u>
<i>Total U.S. Department of Agriculture</i>		<u>234,556</u>
<i>U.S. Department of Education</i>		
Passed-through Mississippi Department of Education:		
Title I – grants to local educational agencies	84.010	240,092
Safe and drug-free schools and communities – state grants	84.186	2,288
Innovative education program strategies	84.298	31,975
Education technology state grants	84.318	6,753
Class size reduction	84.340	3,744
Improving teacher quality – state grants	84.367	<u>70,158</u>
Total		<u>355,010</u>
Special education cluster:		
Special education – grants to states	84.027	132,460
Special education – preschool grants	84.173	<u>12,101</u>
Total		<u>144,561</u>
<i>Total U.S. Department of Education</i>		<u>499,571</u>

SCHEDULE 3
PAGE TWO

RICHTON SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Homeland Security</i>		
Passed-through Mississippi Emergency Management Agency: Disaster assistance	97.XXX	\$ <u>6,627</u>
<i>Total U.S. Department of Homeland Security</i>		<u>6,627</u>
<i>Total for all federal awards</i>		<u>\$ 740,754</u>

RIGHTON SCHOOL DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

NOTE 1

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

NOTE 2

The expenditure amounts include transfers out.

NOTE 3

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

SCHEDULE 4

**RICHTON SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 3,880,381	\$ 2,817,886	\$ 419,209	\$ 643,286
Other	<u>1,217,063</u>	<u>255,122</u>	<u>79,244</u>	<u>882,697</u>
Total	\$ <u>5,097,444</u>	\$ <u>3,073,008</u>	\$ <u>498,453</u>	\$ <u>1,525,983</u>
Total number of students	709			
Cost per student	\$ 7,189	\$ 4,334	\$ 703	\$ 2,152

For the 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 for any type – all the 1000 functional codes.

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

Other – includes all expenditure functions not included in Instruction or Administrative.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

NICHOLSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
131 SOUTH 28TH AVENUE
P.O. DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
FAX 601-264-3642

CARL L. NICHOLSON, JR., CPA
RICHARD D. HALBERT, CPA
RICHARD G. TOPP, CPA
FRANK H. McWHORTER, JR., CPA
T. JOHN HARVEY, CPA
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JANICE M. BATES, CPA
JOE C. TRAVIS, CPA
LISA M. HANSON, CPA

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AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE 601-736-3449
FAX 601-736-0501

Superintendent and School Board
Richton School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Richton School District as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Richton School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Nichelson & Company, P.A.
Hattiesburg, Mississippi
August 11, 2005

NICHOLSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
131 SOUTH 28TH AVENUE
P.O. DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
FAX 601-264-3642

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PUBLIC ACCOUNTANTS

MISSISSIPPI SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

OTHER OFFICES:
150 OLD HWY 98 EAST
POST OFFICE BOX 609
COLUMBIA, MISSISSIPPI 39429
TELEPHONE 601-736-3449
FAX 601-736-0501

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

Superintendent and School Board
Richton School District

Compliance

We have audited the compliance of the Richton 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. Richton School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Richton School District's management. Our responsibility is to express an opinion on Richton School District's compliance based on our audit.

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

In our opinion, Richton 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 Richton 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 Richton 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 noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Nicholson & Company, P.A.
Hattiesburg, Mississippi
August 11, 2005

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

NICHOLSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
131 SOUTH 28TH AVENUE
P.O. DRAWER 15099
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519
FAX 601-264-3642

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COLUMBIA, MISSISSIPPI 39429
TELEPHONE 601-736-3449
FAX 601-736-0501

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

Superintendent and School Board
Richton School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Richton School District as of and for the year ended June 30, 2005, which collectively comprise Richton School District's basic financial statements, and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$7,917 of classroom supply funds carried over from previous years.

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

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

Nicholson + Company, P.A.

Hattiesburg, Mississippi
August 11, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RIGHTON SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section _____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Title I – grants to local educational agencies
CFDA # 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 Circular A-133? | No |

RIGHTON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

Section 2: Financial Statement Findings

The results of our test did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Awards Findings and Questioned Costs

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