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SMITH COUNTY SCHOOL DISTRICT

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

**Charles L. Shivers, CPA
Ridgeland, MS**

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Smith County School District

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

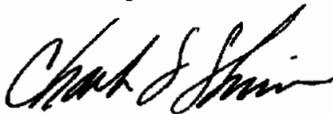
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Smith County School District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 15, 2005, on my consideration of the Smith County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 7 through 12 and the Budgetary Comparison Schedule and related notes on pages 41 - 43 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Smith 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 as required by the Mississippi State Auditor's Office. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ridgeland, MS
November 15, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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SMITH COUNTY SCHOOL DISTRICT

Warren E. Woodrow, Superintendent
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Raleigh, Mississippi 39153
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Management Discussion and Analysis

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$3,341,306, which represents a 17% increase from fiscal year 2004. This increase is due primarily to insurance proceeds received during the fiscal year in the amount of \$2,000,000 resulting from tornado damage in the district. The increase is also a result of revenue generated from the sale of timber and sixteenth section leases during the fiscal year. In addition, capital assets increased \$438,455 as a result of the construction and renovation of school facilities, the purchase of five new school buses and the purchase of several items of furniture and equipment.
- General revenues accounted for \$16,555,029 in revenue, or 70% of total revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,903,006, or 21% of total revenues. Extraordinary items consisting of insurance proceeds resulting from tornado damage in the district accounted for \$2,000,000, or 9% of total revenues.
- The District had \$20,116,729 in expenses; only \$4,903,006 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,555,029 and extraordinary items of \$2,000,000 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,798,405 in revenues and \$14,447,183 in expenditures, resulting in an excess of revenues over expenditures of \$1,351,222. This excess is due primarily to the district setting aside a portion of revenues in anticipation of budget reductions upon suggestion of the Mississippi Department of Education. After net other financing uses of \$799,261, the net change in the General Fund's fund balance was an increase of \$551,961.
- Capital assets, net of accumulated depreciation, decreased by \$183,999.
- Long-term debt decreased by \$379,248.

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 are comprised of 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 and other expenses on long-term liabilities.

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.

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.

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.

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.

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 special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included in 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 \$23,270,539 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$9,663,408 of the District's net assets (42%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), 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. \$6,674,823 of the District's net assets (29%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$6,932,308 of the District's net assets (29%) reflects its unrestricted net assets.

The District's financial position is a product of several financial transactions including the net result of activities, the 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 comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 8,983,159	\$ 6,024,869
Other assets	5,179,655	4,855,530
Capital assets, net	<u>13,955,953</u>	<u>14,139,952</u>
Total assets	<u>28,118,767</u>	<u>25,020,351</u>
Current liabilities	408,137	384,081
Long-term debt outstanding	<u>4,439,006</u>	<u>4,818,254</u>
Total liabilities	<u>4,847,143</u>	<u>5,202,335</u>
Net assets:		
Invested in capital assets, net of related debt	9,663,408	9,469,210
Restricted	6,674,823	8,114,884
Unrestricted	<u>6,932,308</u>	<u>2,233,922</u>
Total net assets	<u>\$ 23,270,539</u>	<u>\$ 19,818,016</u>

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents and investments.
- Capital assets increased from the previous fiscal year due primarily to the construction and renovation of school facilities and the purchase of five new school buses and several items of furniture and equipment.
- Current liabilities increased from the previous fiscal year due primarily to an increase in accounts payable and accrued liabilities.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the increase in capital assets resulting from the construction and renovation of school facilities and the purchase of

mobile equipment and furniture and equipment. The increase in net assets is also due to the decrease in long-term debt related to the capital assets.

- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities and capital improvements.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$23,458,035. The total cost of all programs and services was \$20,116,729. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues	\$ 4,903,006	\$ 4,535,738
General revenues	16,555,029	15,078,266
Special items	<u>2,000,000</u>	<u>0</u>
Total revenues	<u>23,458,035</u>	<u>19,614,004</u>
Expenses:		
Instruction	11,630,373	11,215,278
Support services	6,738,843	5,882,391
Non-instructional	1,442,081	1,149,256
Sixteenth section	64,838	61,271
Interest and other expenses on long-term liabilities	<u>240,594</u>	<u>255,009</u>
Total expenses	<u>20,116,729</u>	<u>18,563,205</u>
Increase in net assets	<u>\$ 3,341,306</u>	<u>\$ 1,050,799</u>

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions.
- General revenues increased from the previous fiscal year due primarily to an increase in taxes, unrestricted state grants and contributions and sixteenth section sources.
- Instruction expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits related to the teacher pay increase.
- Support services expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits related to the teacher pay increase, an increase in insurance costs and an increase in fuel costs.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2005</u>		<u>2004</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 11,630,373	\$ (9,252,772)	\$ 11,215,278	\$ (8,837,695)
Support services	6,738,843	(5,562,781)	5,882,391	(4,941,528)
Non-instructional	1,442,081	(92,738)	1,149,256	67,951
Sixteenth section	64,838	(64,838)	61,271	(61,186)
Interest on long-term liabilities	<u>240,594</u>	<u>(240,594)</u>	<u>255,009</u>	<u>(255,009)</u>
Total expenses	<u>\$ 20,116,729</u>	<u>\$ (15,213,723)</u>	<u>\$ 18,563,205</u>	<u>\$ (14,027,467)</u>

- The net cost of governmental activities for fiscal year 2005 in the amount of \$15,213,723 was financed by general revenue, which is made up of primarily property taxes of \$2,725,461 and state revenue of \$12,183,181.

- Investment earnings accounted for \$333,826 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$13,504,672. The net change in fund balance for the fiscal year was an increase of \$3,100,750 due primarily to insurance proceeds received during the fiscal year in the amount of \$2,000,000 resulting from tornado damage in the district. The increase is also a result of revenue generated from the sale of timber and sixteenth section leases during the fiscal year. \$7,690,331, or 57%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$5,814,341, or 43%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, prepaid items, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$551,961. Prior to net other financing uses of \$799,261, the General Fund had an excess of revenues over expenditures in the amount of \$1,351,222 due primarily to the district setting aside a portion of revenues in anticipation of budget reductions upon suggestion of the Mississippi Department of Education. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$920,685 due primarily to revenue generated from the sale of timber and sixteenth section leases. The net change in fund balance for the Mize Building Project Fund for the fiscal year was an increase of \$1,461,171 due primarily to insurance proceeds resulting from tornado damage in the district. The net change in fund balance for the Debt Service Three Mill Note Fund for the fiscal year was an increase of \$7,362. The net change in fund balance for the 16th Section Principal Fund for the fiscal year was an increase of \$182,036 due primarily to revenue generated from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$22,465.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in ad valorem receipts during the fiscal year.
- Budgeted amounts for revenue from state sources in the General Fund were increased to reflect the increase in Mississippi Adequate Education Program funds received during the fiscal year. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budgeted amounts for instruction and support services expenditures in the General Fund were decreased. During the fiscal year, the district limited expenditures in order to build up the fund balance. Therefore, the original budgeted amounts were overstated.
- Budgeted amounts for transfers into the General Fund were decreased to reflect actual transfers made during the fiscal year. The original budgeted amounts were overstated.
- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfer of funds to the 16th Section Interest Fund for investment purposes.

- Budgeted amounts for revenue from sixteenth section sources in the 16th Section Interest Fund were increased to reflect the increase in revenue generated from the sale of timber and sixteenth section leases during the fiscal year.
- Budgeted amounts for transfers into the 16th Section Interest Fund were increased to reflect the transfer of funds from the General Fund for investment purposes.
- Budgeted amounts for transfers out of the 16th Section Interest Fund were decreased. The original budget included a transfer of funds to the 16th Section Principal Fund but this transfer was not made.
- Budgeted amounts for insurance loss recoveries in the Mize Building Project Fund were increased to reflect the insurance proceeds received during the fiscal year for tornado damage in the district.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue 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, before depreciation, were \$19,836,894, including land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a gross increase of \$249,475 from the previous year. During the fiscal year, the district had additions to construction in progress resulting from the renovation and construction of school facilities. The district also purchased five new school buses and several items of furniture and equipment. Total depreciation expense for the year was \$609,768. Total accumulated depreciation as of June 30, 2005 was \$5,880,941, resulting in total net assets of \$13,955,953.

Debt Administration. At June 30, 2005, the District had \$4,439,006 in general obligation bonds and other long-term debt outstanding, of which \$375,558 is due within one year. During the fiscal year, the district made principal payments in the amount of \$378,197 on existing long-term debt.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Smith County School District, P. O. Box 308, Raleigh, MS 39153.

BASIC FINANCIAL STATEMENTS

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Smith County School District
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 6,802,342
Investments (Note 2)	\$ 1,476,426
Due from other governments	\$ 416,013
Long term deferred charge (Note 11)	\$ 250,903
Other receivables, net	\$ 13,191
Inventories	\$ 24,284
Restricted assets (Note 2)	\$ 5,179,655
Capital assets, net (Note 4)	\$ 13,955,953
Total Assets	<u>\$ 28,118,767</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 404,735
Deferred revenue	\$ 1,419
Interest payable on long-term liabilities	\$ 1,983
Long-term liabilities (Due within one year) (Note 5)	
Capital related liabilities	\$ 375,558
Non-capital related liabilities	\$ 4,394
Long-term liabilities (Due beyond one year) (Note 5)	
Capital related liabilities	\$ 3,916,987
Non-capital related liabilities	\$ 142,067
Total Liabilities	<u>\$ 4,847,143</u>
Net assets	
Investment in capital assets (net of related debt)	\$ 9,663,408
Restricted net assets	
Expendable	
School-based activities	\$ 886,749
Debt service	\$ 131,172
Forestry improvements	\$ 20,703
Unemployment benefits	\$ 58,914
Non-expendable	
Sixteenth section	\$ 5,577,285
Unrestricted	\$ 6,932,308
Total Net Assets	<u>\$ 23,270,539</u>

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

Smith County School District
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government				
Governmental Activities				
Instruction	\$ 11,630,373	\$ 498,130	\$ 1,879,471	\$ (9,252,772)
Support services	\$ 6,738,843		\$ 1,176,062	\$ (5,562,781)
Non-instructional	\$ 1,442,081	\$ 399,219	\$ 950,124	\$ (92,738)
Sixteenth section	\$ 64,838			\$ (64,838)
Interest and other expenses on long-term liabilities	\$ 240,594			\$ (240,594)
Total Governmental Activities	\$ 20,116,729	\$ 897,349	\$ 4,005,657	\$ (15,213,723)
General Revenues				
Taxes				
General purpose levies				\$ 2,520,772
Debt purpose levies				\$ 204,689
Unrestricted grants and contributions				
State				\$ 12,183,181
Federal				\$ 338,013
Unrestricted investment earnings				\$ 333,826
Sixteenth section sources				\$ 882,884
Other				\$ 91,664
Total General Revenues				\$ 16,555,029
Extraordinary items (Note 12)				\$ 2,000,000
Total General Revenues and Extraordinary Items				\$ 18,555,029
Changes in Net Assets				
Net Assets - Beginning				\$ 19,818,016
Prior Period Adjustments (Note 9)				\$ 111,217
Net Assets - Beginning - Restated				\$ 19,929,233
Net Assets - Ending				\$ 23,270,539

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

	Major Funds					Total Governmental Funds
	General Fund	16th Section Interest Fund	16th Section Principal Fund	Mize Building Fund	Debt Service 3 Mill Fund	
Assets						
Cash and cash equivalents (Note 2)	\$ 2,518,155	\$ 1,437,278	\$ 67,445	\$ 1,549,679	\$ 258,285	\$ 6,851,304
Investments (Note 2)	\$ 500,000	\$ 994,909	\$ 5,112,210			\$ 6,607,119
Due from other governments	\$ 189,026				\$ 8,680	\$ 416,013
Due from other funds (Note 3)	\$ 200,314		\$ 397,630			\$ 208,793
Advances to other funds (Note 3)						\$ 397,630
Inventories						\$ 24,284
Total Assets	\$ 3,407,495	\$ 2,432,187	\$ 5,577,285	\$ 1,549,679	\$ 266,965	\$ 14,505,143
Liabilities and Fund Balances						
Liabilities						
Accounts payable & accrued liabilities	\$ 61,578	\$ 12		\$ 88,508	\$ 146,855	\$ 404,735
Due to other funds (Note 3)	\$ 12,682					\$ 195,602
Advances from other funds (Note 3)	\$ 397,630					\$ 397,630
Deferred revenue						\$ 1,419
Other payables	\$ 1,085					\$ 1,085
Total Liabilities	\$ 472,975	\$ 12	\$ -	\$ 88,508	\$ 146,855	\$ 1,000,471
Fund Balances						
Reserved for						
Debt service purposes					\$ 120,110	\$ 133,155
Permanent fund purposes			\$ 5,179,655			\$ 5,179,655
Unemployment benefits						\$ 58,914
Forestry improvements						\$ 20,703
Advances			\$ 397,630			\$ 397,630
Inventory						\$ 24,284
Unreserved						
Undesignated, reported in						
General fund	\$ 2,934,520					\$ 2,934,520
Special revenue funds		\$ 2,432,175		\$ 1,461,171		\$ 837,683
Capital projects funds						\$ 24,782
Total Fund Balances	\$ 2,934,520	\$ 2,432,175	\$ 5,577,285	\$ 1,461,171	\$ 120,110	\$ 13,504,672
Total Liabilities and Fund Balances	\$ 3,407,495	\$ 2,432,187	\$ 5,577,285	\$ 1,549,679	\$ 266,965	\$ 14,505,143

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

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

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 13,504,672
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of \$609,768.	\$ 13,955,953
Bond issue cost are reported as long-term deferred charges in the statement of net assets, but were reported as current period expenditures in the governmental funds.	\$ 250,903
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.	\$ (4,439,006)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	\$ (1,983)
Total net assets - governmental activities	<u>\$ 23,270,539</u>

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

Smith County School District
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2005

	16th				Debt Service 3 Mill Fund	Other Governmental Funds	Total Governmental Funds
	Major Funds	Section Interest Fund	Section Principal Fund	Mize Building Fund			
Revenues							
Local sources	\$ 3,133,051				\$ 204,670	\$ 447,140	\$ 3,784,861
State sources	\$ 12,327,339					\$ 659,529	\$ 12,986,868
Federal sources	\$ 338,015	\$ 736,332	\$ 366,736			\$ 3,202,842	\$ 3,540,857
Sixteenth section sources						\$ 60,748	\$ 1,163,816
Total Revenues	\$ 15,798,405	\$ 736,332	\$ 366,736	\$ -	\$ 204,670	\$ 4,370,259	\$ 21,476,402
Expenditures							
Instruction	\$ 8,982,355			\$ 7,528		\$ 2,279,154	\$ 11,269,037
Support services	\$ 5,079,207			\$ 531,301		\$ 1,337,717	\$ 6,948,225
Noninstructional services						\$ 1,292,080	\$ 1,292,080
Sixteenth section		\$ 577				\$ 64,261	\$ 64,838
Facilities acquisition and construction						\$ 100,742	\$ 100,742
Debt service							
Principal (Note 5)	\$ 123,197				\$ 155,000	\$ 100,000	\$ 378,197
Interest	\$ 258,793				\$ 42,308	\$ 20,220	\$ 321,321
Other	\$ 3,631						\$ 3,631
Total Expenditures	\$ 14,447,183	\$ 577	\$ -	\$ 538,829	\$ 197,308	\$ 5,194,174	\$ 20,378,071
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,351,222	\$ 735,755	\$ 366,736	\$ (538,829)	\$ 7,362	\$ (823,915)	\$ 1,098,331
Other Financing Sources (Uses)							
Insurances loss recoveries	\$ 2,484			\$ 2,000,000			\$ 2,000,000
Sale of transportation equipment	\$ 60						\$ 2,484
Sale of other property	\$ 1,395,901	\$ 185,130				\$ 914,043	\$ 2,495,074
Operating transfers in (Note 3)	\$ (2,197,581)	\$ (200)	\$ (184,700)			\$ (112,593)	\$ (2,495,074)
Operating transfers out (Note 3)	\$ (125)						\$ (125)
Total Other Financing Sources (Uses)	\$ (799,261)	\$ 184,930	\$ (184,700)	\$ 2,000,000	\$ -	\$ 801,450	\$ 2,002,419
Net Change in Fund Balances	\$ 551,961	\$ 920,685	\$ 182,036	\$ 1,461,171	\$ 7,362	\$ (22,465)	\$ 3,100,750
Fund Balances							
July 1, 2004	\$ 2,381,434	\$ 1,511,490	\$ 5,318,803	\$ -	\$ 112,748	\$ 982,741	\$ 10,307,216
Prior period adjustments (Note 9)	\$ 1,125		\$ 76,446			\$ 25,546	\$ 103,117
July 1, 2004, as restated	\$ 2,382,559	\$ 1,511,490	\$ 5,395,249	\$ -	\$ 112,748	\$ 1,008,287	\$ 10,410,333
Decrease in reserve for inventory						\$ (6,411)	\$ (6,411)
June 30, 2005	\$ 2,934,520	\$ 2,432,175	\$ 5,577,285	\$ 1,461,171	\$ 120,110	\$ 979,411	\$ 13,504,672

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

Smith 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

Exhibit D-1

	<u>Amount</u>
Net change in fund balance - governmental funds	\$ 3,100,750
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$438,455 and the depreciation expense amounted to \$609,768. (Note 4)	\$ (171,313)
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	\$ 378,197
Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and the expense amortized in the statement of activities (Note 10)	\$ (20,909)
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	\$ 1,051
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.	\$ (20,786)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	\$ 80,727
The governmental funds reported a decrease in reserve for inventory while the transaction is not reported in the statement of activities.	\$ (6,411)
Changes in net assets of governmental activities	<u>\$ 3,341,306</u>

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

Smith County School District
Statement of Net Assets - Fiduciary Funds
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 1,128,687
Due from other funds (Note 3)	\$ 4,202
Total Assets	<u>\$ 1,132,889</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,004,848
Due to other funds (Note 3)	\$ 17,393
Due to student clubs	\$ 110,648
Total Liabilities	<u>\$ 1,132,889</u>

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

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Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying basic 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. Each member was elected by the citizens of 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 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 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. It also includes 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. 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.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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

The school district reports the following major governmental funds:

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

Sixteen Section Interest Fund - This fund is used to account for the expendable financial resources generated from the use of sixteenth section trust lands.

Sixteen Section Principal Fund - This fund is used to account for the non-expendable financial resources generated from the use of sixteenth section trust lands.

Mize Building Fund - This fund is used to account for the expenditures associated with the repairs to the Mize Attendance Center.

Debt Service 3 Mill Fund - This fund is used to account for the debt service payments on the 3 mill note.

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Financial Accounting for Local and State School Systems, 1990 issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected. Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

I. Capital Assets.

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

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

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

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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, constructions, 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 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 debt service purposes - An account that represents a portion of the fund balance that is legally restricted for the retirement of school district debt.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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

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

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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.

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.

(2) Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district deposits in financial institutions are held in the name of the Mississippi 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 school district'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.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). That section permits the following types of investments: (a) certificates of deposit and interest bearing accounts; (b) direct US Treasury obligations; (c) US Government agencies, US Government instrumentalities or US Government sponsored enterprise obligations; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of those securities enumerated in (b) and (c) above; (e) direct obligations of the US in open-end or closed-end of any management type investment company. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,851,304 and \$1,128,687, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$6,802,342 and Restricted Assets - \$5,179,655. The Restricted Assets represents the cash and investment balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$7,812,646.

Custodial Credit Risk – Deposits. Custodial risk is the risk that in the event of a depository failure, the school district deposits may not be returned to it. The school district does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the school district. Deposits above 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. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

Investments.

The school district had the following investments at year end:

Investment	Credit Rating	Maturities	Fair Value
US Treasury Securities	AAA	Various	\$ 500,000
US Government Bonds	AAA	Various	\$ 5,962,202
Asset Backed Securities	Not Rated	Various	\$ 85,908
Certificate of Deposit	N/A	3-6-08	\$ 95,000
Total			<u>\$ 6,607,119</u>

Investments are reported at fair value which is based on quoted market price. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major Funds:		
General Fund	\$ 200,314	\$ 12,682
Non-major Funds	\$ 8,479	\$ 182,920

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

	Due From	Due To
Fiduciary Funds	\$ 4,202	\$ 17,393
Total	\$ 212,995	\$ 212,995

The purpose of the more significant interfund loans was to eliminate deficit cash balances in certain federal programs as part of normal year end closing adjustments.

B. Advances To/From Other Funds:

	Advances To	Advances From
Major Funds:		
General Fund		\$ 397,630
16 th Section Principal Fund	\$ 397,630	
Total	\$ 397,630	\$ 397,630

This advance represents a long term General Fund loan from the Sixteenth Section Principal Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann., 1972. The purpose of these advances was to provide long term financing for capital related improvements in the district.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 67,605	\$ 15,904	\$ 83,509
2007	\$ 52,990	\$ 13,199	\$ 66,189
2008	\$ 55,109	\$ 11,080	\$ 66,189
2009	\$ 57,314	\$ 8,875	\$ 66,189
2010	\$ 59,608	\$ 6,584	\$ 66,192
2011 – 2013	\$ 105,004	\$ 7,416	\$ 112,420
Total	\$ 397,630	\$ 63,058	\$ 460,688

C. Transfers In/Out.

	Transfer In	Transfers Out
Major Funds:		
General Fund	\$ 1,395,901	\$ 2,197,581
Other Major Funds		
16 th Section Interest Funds	\$ 185,130	\$ 200
16 th Section Principal Funds		\$ 184,700
Non-major Funds	\$ 914,043	\$ 112,593
Total	\$ 2,495,074	\$ 2,495,074

The purpose of the interfund transfers within the General Fund and to the Non-major Funds are to finance basic operations of the district that are not directly funded (i.e., state funded special education, vocational program, activity and athletic programs). The transfer out in the 16th Section Principal fund is a transfer of interest income to the 16th Section Interest Fund. The transfers out in the Non-major funds are primarily the transfer of indirect cost on federal programs to the General Fund.

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2005
<u>Non-depreciable capital assets:</u>						
Land	\$ 131,690					\$ 131,690
Construction in progress	\$ 29,691	\$ 100,742		\$ (130,433)		\$ 0
Total non-depreciable capital assets	\$ 161,381	\$ 100,742		\$ (130,433)		\$ 131,690
<u>Depreciable capital assets:</u>						
Buildings	\$ 15,615,193				\$ 2,892	\$ 15,618,085
Building improvements	\$ 301,302					\$ 301,302
Improvements other than buildings	\$ 544,317			\$ 130,433		\$ 674,750
Mobile equipment	\$ 2,264,291	\$ 241,500	\$ (159,204)			\$ 2,346,587
Furniture and equipment	\$ 628,219	\$ 96,213	\$ (52,768)		\$ 20,100	\$ 691,764
Leased property under capital leases	\$ 72,716					\$ 72,716
Total depreciable capital assets	\$ 19,426,038	\$ 337,713	\$ (211,972)	\$ 130,433	\$ 22,992	\$ 19,705,204
<u>Less accumulated depreciation</u>						
Buildings	\$ 3,566,743	\$ 304,028			\$ (3,103)	\$ 3,867,668
Building improvements	\$ 51,491	\$ 12,052			\$ (490)	\$ 63,053
Improvements other than buildings	\$ 86,157	\$ 26,990				\$ 113,147
Mobile equipment	\$ 1,255,716	\$ 198,944	\$ (138,946)		\$ 15,323	\$ 1,331,037
Furniture and equipment	\$ 467,536	\$ 66,700	\$ (52,240)			\$ 481,996
Leased property under capital leases	\$ 19,824	\$ 1,054			\$ 3,162	\$ 24,040
Total accumulated depreciation	\$ 5,447,467	\$ 609,768	\$ (191,186)		\$ 14,892	\$ 5,880,941
Total depreciable capital assets, net	\$ 13,978,571	\$ (272,055)	\$ (20,786)	\$ 130,433	\$ 8,100	\$ 13,824,263
Governmental activities capital assets, net	\$ 14,139,952	\$ (171,313)	\$ (20,786)	\$ 0	\$ 8,100	\$ 13,955,953

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 362,387
Support services	\$ 208,164
Non-instructional	\$ 39,217
Total depreciation expense	\$ 609,768

(5) Long-term liabilities.

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

	Balance 7-1-2004	Additions	Reductions	Balance 6-30-2005	Amounts due within one year
A. General obligation refunding bonds payable	\$ 3,770,000		\$ 200,000	\$ 3,570,000	\$ 220,000
B. Three mill notes payable	\$ 827,000		\$ 155,000	\$ 672,000	\$ 132,000
C. Obligations under capital	\$ 73,742		\$ 23,197	\$ 50,545	\$ 23,558
D. Compensated absences payable	\$ 147,512		\$ 1,051	\$ 146,461	\$ 4,394
Total	<u>\$ 4,818,254</u>	<u>\$ 0</u>	<u>\$ 379,248</u>	<u>\$ 4,439,006</u>	<u>\$ 379,952</u>

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2002	varies	7-15-02	7-15-17	\$ <u>3,870,000</u>	\$ <u>3,770,000</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 220,000	\$ 159,308	\$ 379,308
2007	\$ 235,000	\$ 148,501	\$ 383,501
2008	\$ 245,000	\$ 137,408	\$ 382,408
2009	\$ 255,000	\$ 126,668	\$ 381,668
2010	\$ 275,000	\$ 115,596	\$ 390,596
2011 – 2015	\$ 1,580,000	\$ 380,834	\$ 1,960,834
2016 – 2018	\$ 760,000	\$ 37,638	\$ 797,638
Total	<u>\$ 3,570,000</u>	<u>\$ 1,105,953</u>	<u>\$ 4,675,953</u>

This debt will be retired from the District Maintenance Fund (General Fund) and the EEF-School Building and Bus Fund (Special Revenue Fund).

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 5% of property assessments as of October 1, 2004.

B. Three mill notes payable.

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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Year Ending June 30	Principal	Interest	Total
2006	\$ 160,000	34,738	194,738
2007	\$ 212,000	\$ 26,933	\$ 238,933
2008	\$ 118,000	\$ 16,950	\$ 134,950
2009	\$ 125,000	\$ 10,283	\$ 135,283
2010	\$ 57,000	\$ 3,220	\$ 60,220
Total	<u>\$ 672,000</u>	<u>\$ 92,124</u>	<u>\$ 764,124</u>

This debt will be retired from the Debt Service 3 Mill Fund (Debt Service Fund).

C. Obligations under capital leases.

The school district has entered into two lease agreements that qualify as a capital lease for accounting purposes. Leased property under these leases is composed of:

1. An IBM AS 400 computer and financial accounting software.
2. One modular classroom.

The various options available to the lessee for these leases are as follows:

1. The lease has an end of lease purchase option of one dollar.
2. The agreement requires equal installments over 120 months.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 23,559	\$ 2,435	\$ 25,994
2007	\$ 4,815	\$ 1,543	\$ 6,358
2008	\$ 5,090	\$ 1,267	\$ 6,357
2009	\$ 5,378	\$ 979	\$ 6,357
1010	\$ 5,689	\$ 669	\$ 6,358
1011	\$ 6,014	\$ 343	\$ 6,357
Total	<u>\$ 50,545</u>	<u>\$ 7,236</u>	<u>\$ 57,781</u>

This debt will be retired from the District Maintenance Fund (General Fund).

D. 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.

(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

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,082,270, \$1,010,228 and \$959,048, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

The school district has several operating leases for portable classroom buildings

Lease expenditures for the year ended June 30, 2005, amounted to \$13,125. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2006	\$ <u>99,100</u>

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 62,514
2007	\$ 61,832
2008	\$ 61,809
2009	\$ 51,145
2010	\$ 38,616
2011 – 2015	\$ 178,896
2016 – 2020	\$ 176,418
2021 – 2025	\$ 174,468
2026 – 2030	\$ 149,199
Thereafter	\$ <u>142,021</u>
Total	\$ <u>1,096,918</u>

Smith County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

(9) Prior Period Adjustments.

Exhibit B and Exhibit D	Amount	Explanation
General Fund		
District Maintenance Fund	\$ 1,125	Correction of prior year receivable / current year revenue
Total General Fund	\$ 1,125	
16 th Section Principal Fund	\$ 76,446	Recording of an asset not previously recorded
Other Governmental Funds		
Title I Fund	\$ 68,330	Correction of prior year receivable / current year revenue
Food Service Fund	\$ (22,995)	Correction of prior year payable / current year expenditure
Innovative Education Fund	\$ 5,839	Correction of prior year receivable / current year revenue
Class Size Reduction Fund	\$ 37,108	Correction of prior year receivable / current year revenue
Drug Free Schools	\$ 733	Correction of prior year receivable / current year revenue
21 st Century Learning Grant	\$ 8,932	Correction of prior year receivable / current year revenue
Unemployment Comp Fund	\$ (65,334)	Correction of prior year payable / current year expenditure
Special Fund	\$ (7,067)	Correction of prior year payable / current year expenditure
Total Other Governmental Funds	\$ 25,546	
Total Exhibit D	\$ 103,117	
Primary Government	\$ 8,100	Adjustments made to capital assets (see Note 4)
Total Exhibit B	\$ 111,217	

(10) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000 MMWCG has insurance which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(11) Other Disclosures - Long Term Deferred Charge.

Upon the issuance of the General Obligation Bonds, Series 2002, the district incurred bond issue cost of \$292,721. This transaction is reported as a long-term deferred charge on the Statement of Net Assets and will be amortized over the life of the bonds using the straight line method at an annual cost of \$20,909. The unamortized balance was \$250,903 at fiscal year end.

(12) Extraordinary Item.

The district received a partial insurance settlement of \$2,000,000 as a result of tornado damage at the Mize Attendance Center.

SUPPLEMENTARY INFORMATION

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Smith 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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>92,450</u>
Child nutrition cluster:		
School breakfast program	10.553	\$ 236,248
National school lunch program	10.555	\$ <u>676,761</u>
Total child nutrition cluster		\$ <u>913,009</u>
Total U.S. Department of Agriculture		\$ <u>1,005,459</u>
 <u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	\$ 765,115
Vocational education - basic grants to states	84.048	\$ 99,138
Safe and drug-free schools and communities - state grants	84.186	\$ 24,243
Eisenhower professional development state grants	84.281	\$ 1,218
Twenty-first century community learning centers	84.287	\$ 306,848
Innovative education program strategies	84.298	\$ 17,573
Education technology - state grants	84.318	\$ 40,880
Rural education	84.358	\$ 107,499
Improving teacher quality - state grants	84.367	\$ <u>253,372</u>
Total		\$ <u>1,615,886</u>
Special education cluster:		
Special education - grants to states	84.027	\$ 613,746
Special education - preschool grants	84.173	\$ <u>29,120</u>
Total		\$ <u>642,866</u>
Total U.S. Department of Education		\$ <u>2,258,752</u>
Total for All Federal Awards		\$ <u>3,264,211</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 basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,603,873	\$ 9,017,900	\$ 1,600,309	\$ 2,985,664
Other	\$ 6,774,198	\$ 2,251,137	\$ 390,659	\$ 4,132,402
 Total	 \$ <u>20,378,071</u>	 \$ <u>11,269,037</u>	 \$ <u>1,990,968</u>	 \$ <u>7,118,066</u>
 Total number of students	 <u>3,059</u>			
 Cost per student	 \$ <u>6,662</u>	 \$ <u>3,684</u>	 \$ <u>651</u>	 \$ <u>2,327</u>

Notes to the schedule.

Instruction - includes the activities dealing directly with the interaction between teachers and students (all 1000 function codes).

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

Other - includes all expenditure functions not included in Instruction or Administration.

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

REQUIRED SUPPLEMENTARY INFORMATION

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Smith County School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 2,925,699	\$ 3,133,079	\$ 3,133,051	\$ (207,380)	\$ 28
State sources	\$ 12,105,200	\$ 12,327,339	\$ 12,327,339	\$ (222,139)	\$ -
Federal sources	\$ 295,000	\$ 338,015	\$ 338,015	\$ (43,015)	\$ -
Total Revenues	\$ 15,325,899	\$ 15,798,433	\$ 15,798,405	\$ (472,534)	\$ 28
Expenditures					
Instruction	\$ 9,213,900	\$ 8,981,480	\$ 8,982,355	\$ 232,420	\$ (875)
Support services	\$ 5,636,651	\$ 5,079,390	\$ 5,079,207	\$ 557,261	\$ 183
Facilities acquisition and construction	\$ 310,140	\$ -	\$ -	\$ 310,140	\$ -
Debt service					
Principal	\$ -	\$ 200,981	\$ 123,197	\$ (200,981)	\$ 77,784
Interest	\$ -	\$ -	\$ 258,793	\$ -	\$ (258,793)
Other	\$ -	\$ -	\$ 3,631	\$ -	\$ (3,631)
Total Expenditures	\$ 15,160,691	\$ 14,261,851	\$ 14,447,183	\$ 898,840	\$ (185,332)
Excess (Deficiency) of Revenues Over Expenditures	\$ 165,208	\$ 1,536,582	\$ 1,351,222	\$ (1,371,374)	\$ 185,360
Other Financing Sources (Uses)					
Sale of transportation equipment	\$ -	\$ -	\$ 2,484	\$ -	\$ (2,484)
Sale of other property	\$ -	\$ -	\$ 60	\$ -	\$ (60)
Operating transfers in	\$ 2,028,349	\$ 1,398,447	\$ 1,395,901	\$ 629,902	\$ 2,546
Operating transfers out	\$ (2,193,557)	\$ (2,697,708)	\$ (2,197,581)	\$ 504,151	\$ (500,127)
Other financing uses	\$ -	\$ -	\$ (125)	\$ -	\$ 125
Total Other Financing Sources (Uses)	\$ (165,208)	\$ (1,299,261)	\$ (799,261)	\$ 1,134,053	\$ (500,000)
Net Change in Fund Balances	\$ -	\$ 237,321	\$ 551,961	\$ (237,321)	\$ (314,640)
Fund Balances					
July 1, 2004	\$ -	\$ -	\$ 2,381,434	\$ -	\$ (2,381,434)
Prior period adjustments	\$ -	\$ -	\$ 1,125	\$ -	\$ (1,125)
July 1, 2004, as restated	\$ -	\$ -	\$ 2,382,559	\$ -	\$ (2,382,559)
June 30, 2005	\$ -	\$ 237,321	\$ 2,934,520	\$ (237,321)	\$ (2,697,199)

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

Smith County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - 16th Section Interest Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Sixteenth section sources	\$ 149,000	\$ 626,136	\$ 736,332	\$ (477,136)	\$ (110,196)
Total Revenues	<u>\$ 149,000</u>	<u>\$ 626,136</u>	<u>\$ 736,332</u>	<u>\$ (477,136)</u>	<u>\$ (110,196)</u>
Expenditures					
Sixteenth section	\$ 5,000	\$ 577	\$ 577	\$ 4,423	\$ -
Total Expenditures	<u>\$ 5,000</u>	<u>\$ 577</u>	<u>\$ 577</u>	<u>\$ 4,423</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 144,000</u>	<u>\$ 625,559</u>	<u>\$ 735,755</u>	<u>\$ (481,559)</u>	<u>\$ (110,196)</u>
Other Financing Sources (Uses)					
Operating transfers in	\$ 150,000	\$ 685,130	\$ 185,130	\$ (535,130)	\$ 500,000
Operating transfers out	\$ (294,000)	\$ (201)	\$ 200	\$ (293,799)	\$ (401)
Total Other Financing Sources (Uses)	<u>\$ (144,000)</u>	<u>\$ 684,929</u>	<u>\$ 185,330</u>	<u>\$ (828,929)</u>	<u>\$ 499,599</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ 1,310,488</u>	<u>\$ 921,085</u>	<u>\$ (1,310,488)</u>	<u>\$ 389,403</u>
Fund Balances					
July 1, 2004	\$ -	\$ -	\$ 1,511,490	\$ -	\$ (1,511,490)
Prior period adjustments	\$ -	\$ (270,095)	\$ -	\$ 270,095	\$ (270,095)
July 1, 2004, as restated	<u>\$ -</u>	<u>\$ (270,095)</u>	<u>\$ 1,511,490</u>	<u>\$ 270,095</u>	<u>\$ (1,781,585)</u>
June 30, 2005	<u>\$ -</u>	<u>\$ 1,040,393</u>	<u>\$ 2,432,575</u>	<u>\$ (1,040,393)</u>	<u>\$ (1,392,182)</u>

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

Smith County School District
Notes to the Required Supplemental Information
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 a date established by the Mississippi Board of Education (generally on or about September 1 of the following fiscal year). A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States.

(3) Individual Fund Disclosures.

Excess Expenditures over Budget.

The individual fund that had an excess of expenditures over budget, including amounts of the excess, are as follows:

Individual Fund	Amount
District Maintenance Fund	\$ <u>185,332</u>

The excess of expenditures over budget is not in violation of state law since the excess resulted from an auditor adjustment.

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REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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Charles L. Shivers, CPA

122 Trace Ridge Drive
Ridgeland, MS 39157
Phone: (601) 853-7133

Member
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MSCPA

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

Superintendent and School Board
Smith County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2005, which collectively comprise the district's basic financial statements and have issued my report thereon dated November 15, 2005. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Smith County School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are 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 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness. I also noted other matters involving the internal control over financial reporting that I have reported to management of the Smith County School District in a separate letter dated November 15, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted a certain matter that I reported to management of the Smith County School District in a separate letter dated November 15, 2005.

This report is intended solely for the information and use of the district's 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.

A handwritten signature in black ink, appearing to read "Chad J. Smith". The signature is written in a cursive style with a large initial "C".

Ridgeland, MS
November 15, 2005

Charles L. Shivers, CPA

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Phone: (601) 853-7133

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

Superintendent and School Board
Smith County School District

Compliance

I have audited the compliance of the Smith 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 district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, Smith 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 Smith County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Smith County School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding 2005-2.

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 the 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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the district's 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.

A handwritten signature in black ink, appearing to read "Chad S. Smith". The signature is written in a cursive, flowing style.

Ridgeland, MS
November 15, 2005

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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Charles L. Shivers, CPA

122 Trace Ridge Drive
Ridgeland, MS 39157
Phone: (601) 853-7133

Member
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MSCPA

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Smith County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2005, and have issued my report thereon dated November 15, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of my 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 \$82,229 of classroom supply funds carried over from previous years.

The results of those procedures and my audit of the basic financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. My finding and recommendation and your response are as follows:

Finding

During the review of the vocational center activity fund expenditures, it was noted that funds were used to pay \$150 scholarships for two students to attend the local junior college upon graduation from high school.

The use of activity funds is addressed in Section 37-7-301 (s), Miss. Code of Ann. (1972). The language in that section does not permit the use of activity funds to pay for scholarships.

Recommendation

It is recommended that activity funds not be used to pay for student scholarships. As an alternative, the district may wish to solicit community donations that could be earmarked for such purposes.

Response

Corrective Action Plan

1. Contact person responsible for corrective action:
Lisa Thompson, Business Manager (601) 782-4296
2. Description of corrective action plan to be taken:
Money generated from activity funds will no longer be used to give scholarships to students.
3. Anticipated completion date of corrective action plan:
This will be corrected as of January 9, 2006

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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

A handwritten signature in cursive script, appearing to read "Charles J. Smith".

Ridgeland, MS
November 15, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Smith County School District
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by section __.510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Title I Grants to Local Educational Agencies
CFDA # 84.010 | |
| | b. 21 st Century Community Learning Centers
CFDA# 84.287 | |
| | b. Special Education Cluster
CFDA # 84.027
CFDA# 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned costs 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? | Yes |

Section 2: Financial Statement Findings

2005-01

Finding

The vocational center operated concession sales (cokes and snacks) during the year. Upon inspection of the accounting records, it was noted that that the purchase of snacks for resale was absent from the accounting records. Upon inquiry of vocational personnel, it was learned that the purchase of snacks for resale was a cash transaction at Sam's Club. Upon inspection of the Sam's receipts, it was noted that the purchase of snacks for the year totaled \$3,148. The snack sales for the year were \$3,033 resulting in a loss of \$115. Analytical procedures performed at another location and inquiry of that school principal suggests that a profit margin of 65% to 70% on snack sales is generally expected. When applying that profit margin to the vocational center snack purchases, one would expect a profit of approximately \$2,100. This expected profit is unaccounted for.

Smith County School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Acquiring goods and service by means of cash transactions is a poor system of control that can and often does result in the absence of full accountability.

When conducting concession sales it is important to incorporate controls that provide assurance of accountability. For example, reconciling items purchased, items sold and cash received provides assurance that expected profits are being generated and all cash is accounted for.

Recommendation

It is recommended that the practice of cash transactions be eliminated and that the procurement of goods and services comply with district policy. In addition, there needs to be full accountability for concession sales. This can be accomplished by means of monthly reconciliations or going full service with the vendors.

Section 3: Federal Award Findings and Questioned Costs

2005-2

Program: Title I – Grants to Local Educational Agencies; CFDA# 84.010; US Department of Education; Passed through the Mississippi Department of Education

Special Education Cluster; CFDA# 84.027 and 84.173; US Department of Education; Passed through the Mississippi Department of Education

21st Century Community Learning Centers; CFDA# 84.287; US Department of Education; Passed through the Mississippi Department of Education

Compliance Requirement: Cash Management

Finding

The district's request for reimbursement exceeded the program needs and resulted in excessive cash on hand. The cash management requirements contained in the federal compliance supplement indicates that requests for reimbursements be limited to paid expenditures and obligations incurred which will be liquidated within a reasonable period of time. Significant violations of this nature, which was not the case in this instance, could result in certain restrictive sanctions placed on the program by the grantor or pass through grantor. It should be mentioned that this particular finding was present in the previous audit. Due to the timing of the previous audit, it was not possible for this condition to be corrected during the current audit period.

Recommendation

It is recommended that the district develop a conservative procedure to establish the amount to request for reimbursement. Reimbursement requests should be made monthly using this procedure.

AUDITEE'S CORRECTIVE ACTION PLAN



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SMITH COUNTY SCHOOL DISTRICT

Warren E. Woodrow, Superintendent
P.O. Box 308
Raleigh, Mississippi 39153
601-782-4296
601-782-9895 (Fax)

November 16, 2005

As required by Section 315(c) of OMB Circular A-133, the Smith 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

2005-1

Corrective Action Plan

- a. Contact person responsible for corrective action.

Lisa Thompson, Business Manager 601-782-4296

- b. Description of correction action to be taken.

The vocational center will go full service with vendors.

- c. Anticipated completion date of corrective action.

This will be corrected as of January 9, 2006.

Finding

2005-2

Corrective Action Plan

- a. Contact person responsible for corrective action.

Lisa Thompson, Business Manager 601-782-4296

- b. Description of correction action to be taken.

Amount requested will be equal to amount of monthly expenditures.

c. Anticipated completion date of corrective action.

This was corrected effective July 1, 2005.

Sincerely,

A handwritten signature in cursive script that reads "Warren E. Woodrow".

Warren Woodrow
Superintendent of Education

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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SMITH COUNTY SCHOOL DISTRICT

Warren E. Woodrow, Superintendent
P.O. Box 308
Raleigh, Mississippi 39153
601-782-4296
601-782-9895 (Fax)

November 11, 2005

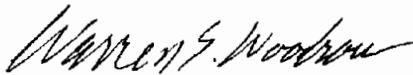
Summary Schedule of Prior Audit Findings

Financial and Compliance Audit Division

As required by Section __.315(b) of OMB Circular A-133, the Smith County School District has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of June 30, 2005.

<u>Finding</u>	<u>Status</u>
2004-01	Corrected
2004-02	Corrected

Sincerely,



Warren E. Woodrow
Superintendent of Education

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