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SOUTH PIKE SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2005

# SOUTH PIKE SCHOOL DISTRICT

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Mississippi Society  
of Certified Public  
Accountants

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

February 8, 2006

Superintendent and School Board  
South Pike School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2006, on our consideration of the South Pike School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (3) through (12) and the Budgetary Comparison Schedule and corresponding notes on pages (34) through (35) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

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

*McDaniel CPA Firm*

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of South Pike 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 a new 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.

The South Pike School District serves the small rural communities of Magnolia, Fernwood and Osyka in Southern Pike County, Mississippi. The district's 2,009 students are enrolled in Eva Gordon Elementary (K-3), Magnolia Elementary (4-5), Osyka Elementary (K-5), South Pike Middle School (6-8) and South Pike High School (9-12). The district also offers educational opportunities for high school students including a GED program at the South Pike Vocational Center and the South Pike Alternative School.

South Pike School District's teachers and staff are working vigorously to prepare students for rigorous standards driven test required under the state accountability model and No Child Left Behind (NCLB). For the 2004-2005 school year, all schools met Adequate Yearly Progress as required by NCLB.

The district is committed to implement innovative learning programs to ensure success for every student. The district is striving to improve student achievement through the use of the Star reading assessment and Plato Learning software. Teachers are also using Classroom Manager to create classroom assessments based on the Mississippi curriculum in the same format as the MCT.

## FINANCIAL HIGHLIGHTS

- The district's financial status improved substantially for the third year in a row. Total net assets increased \$1,152,691, which represents 12% increase from fiscal year 2004. This improvement in financial status is significant because, it will enable the district to maintain fiscal stability during economic slumps. Particularly since the district is so dependent on state revenues and the state is impending budget problems.
- General revenues account for \$12,522,429 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,152,419 or 25% of total revenues.
- The District had \$15,522,157 in expenses; only \$4,152,419 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,522,429 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,696,265 in revenues and \$11,586,839 in expenditures. The General Fund's fund balance increased \$387,540 over the prior year. This increase in fund balance is due primarily to the transfer of funds in the amount of \$261,500 from the 16<sup>th</sup> Section Interest Fund to the General Fund. The increase is also due to the excess of revenues over expenditures in the amount of \$109,426 at the end of the fiscal year. This significant increase was due to the following factors:

The major portion of this increase was the result of a 3% set aside of State revenue as recommended by the Department of Education in anticipation of budget cuts that did not materialize.

The rest of the increase was due to reductions in spending in repairs and maintenance as a result of hiring a maintenance supervisor and performing many of the repairs in house with the assistance of Trusty's from the Pike County Sheriff's Department.

Also, heating costs were significantly lower than in prior years.

Transportation eliminated five bus routes due to the reduction in enrollment that has occurred over the past several years.

- Capital assets, net of accumulated depreciation, increased by \$1,184,635. This increase is due to construction and building improvements completed during the fiscal year and the purchase of various items of mobile equipment and furniture and equipment.
- Long-term debt increased by \$330,959.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 13 - 14 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 16 and 18, respectively.

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

The basic governmental fund financial statements can be found on pages 15 and 17 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 19.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 33 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 34 - 35 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 36 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$11,184,992 as of June 30, 2005.

By far the largest portion of the District's net assets (54%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005.

### Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
Current Assets	6,718,605	6,415,023	4.73%
Capital Assets, Net	7,278,090	6,093,456	19.44%
Total Assets	<u>13,996,695</u>	<u>12,508,479</u>	<u>11.90%</u>
Current Liabilities	861,893	857,327	0.53%
Long-term debt outstanding	1,949,810	1,618,851	20.44%
Total Liabilities	<u>2,811,703</u>	<u>2,476,178</u>	<u>13.55%</u>
Net Assets:			
Invested in capital assets, net of related debt	5,460,798	4,612,956	18.38%
Restricted	2,164,291	2,008,860	7.74%
Unrestricted	3,559,903	3,410,485	4.38%
Total Net Assets	<u>11,184,992</u>	<u>10,032,301</u>	<u>11.49%</u>

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

- Capital assets increased from the previous fiscal year due primarily to the completed construction and building improvements made to school facilities during the fiscal year and the purchase of various items of mobile equipment and furniture and equipment.
  - Long-term debt outstanding increased from the previous fiscal year due primarily to the issuance of new debt during the fiscal year.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the completed construction and building improvements made to

school facilities during the fiscal year and the purchase of various items of mobile equipment and furniture and equipment.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2005 were \$16,674,848. The total cost of all programs and services was \$15,522,157. 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>Changes in Net Assets</u>		<u>Total Percentage Change 2004-2005</u>
	<u>2005</u>	<u>2004</u>	
<b>Revenues:</b>			
Program Revenues	4,152,419	4,015,766	3.40%
General Revenues	12,522,429	11,743,209	6.64%
Total Revenues	<u>16,674,848</u>	<u>15,758,975</u>	<u>5.81%</u>
<b>Expenses</b>			
Instruction	8,193,127	8,021,591	2.14%
Support Services	6,079,931	5,123,749	18.66%
Non-instructional	1,154,812	1,166,881	-1.03%
Sixteenth Section	26,376	31,198	-15.46%
Interest in long-term liabilities	67,911	49,122	38.25%
Total Expenses	<u>15,522,157</u>	<u>14,392,541</u>	<u>7.85%</u>
<b>Increase in Net Assets</b>	<u>1,152,691</u>	<u>1,366,434</u>	<u>-15.64%</u>

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

	<u>Net Cost of Governmental Activities</u>					
	<u>Total Expenses</u>		<u>Total Percentage Change 2004-2005</u>	<u>Net (Expense) Revenue</u>		<u>Total Percentage Change 2004-2005</u>
	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>	
Instruction	8,193,127	8,021,591	2.14%	(6,264,441)	(6,210,786)	0.86%
Support Services	6,079,931	5,123,749	18.66%	(4,893,390)	(3,944,308)	24.06%
Non-instructional	1,154,812	1,166,881	-1.03%	(117,620)	(176,848)	-33.49%
Sixteenth Section	26,376	31,198	-15.46%	(26,376)	4,239	-722.22%
Interest in long-term liabilities	67,911	49,122	38.25%	(67,911)	(49,072)	38.39%
Total Expenses	<u>15,522,157</u>	<u>14,392,541</u>		<u>(11,369,738)</u>	<u>(10,376,775)</u>	

- Net cost of governmental activities \$11,369,738 was financed by general revenue, which is made up of primarily property taxes \$2,905,551 and state and other revenue \$9,166,578.
- Investment earnings accounted for \$172,809 of funding.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$5,880,960, an increase of \$301,667 due primarily to the district setting aside a portion of revenue in anticipation of budget reductions as advised by the Mississippi Department of Education. Fortunately, the budget reductions did not materialize. \$5,608,538 or 95% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$272,422 or 5% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$387,540 due primarily to the transfer of funds in the amount of \$261,500 from the 16<sup>th</sup> Section Interest Fund to the General Fund. The increase is also due to the excess of revenues over expenditures in the amount of \$109,426 at the end of the fiscal year. This excess of revenue is due to the district setting aside a portion of revenue in anticipation of budget reductions that never materialized. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$85,873 due to the deficiency of revenues over expenditures in various funds.

## BUDGETARY HIGHLIGHTS

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

Anticipated revenue and expenditures related to the Universal School and Library Fund (E-Rate) were less than anticipated.

The number of special education teacher units increased over the prior year thereby increasing instructional expenditures.

Due to the fact that South Pike School District's child nutrition operates under Provision 3 and all students are entitled to a free lunch and breakfast, a decrease in the enrollment resulted in a decrease in the Federal Revenue for the Food Service Fund.

Title I budget adjustments are the result of fact that the initial budget is prepared based on the prior year allocation. Adjustments are made to reflect the actual allocation when it is received. Also, carryover funds are added to the budget after the end of the fiscal year.

Appropriations were increased in areas to prevent budget overruns.

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2005, the District's total capital assets were \$11,687,551, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,400,762 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$4,409,461 and total depreciation expense for the year was \$345,919, resulting in total net assets of \$7,278,090.

Additional information of the District's capital assets can be found in Note 4 to the financial statements.

**Debt Administration.** At June 30, 2005, the District had \$1,949,810 in general obligation bonds and other long-term debt outstanding, of which \$341,891 is due within one year. During the fiscal year, the district obtained new long-term debt totaling \$675,000 and made principal payments on new and existing long-term debt in the amount of \$338, 208.

Additional information of the District's long-term debt can be found in Note 5 to the financial statements.

## **CURRENT ISSUES**

The South Pike 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 assessed valuation has increased from \$35,255,154 in 1993 to \$61,252,222 in 2005. This represents growth in the tax base of 72%. The millage has only increased .58 mills over the past eleven years.

In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The district was awarded a Certificate of Achievement in Financial Reporting FY 2002 and FY 2003 from the Office of the State Auditor. The District plans to continue its sound fiscal management to meet the challenges of the future.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the South Pike School District, P. O. Box 71 or 250 West Bay Street, Magnolia, MS 39652.

SOUTH PIKE SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	<u>Primary Government Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents (Note 2)	\$ 5,519,814
Due from other governments	347,255
Inventories and prepaid items	30,947
Restricted assets	820,589
Capital assets, net (Note 4)	7,278,090
Total Assets	<u>13,996,695</u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	837,645
Interest payable on long-term liabilities	24,248
Long-term liabilities (Due within one year):(Note 5)	
Capital related liabilities	337,915
Non-capital related liabilities	3,976
Long-term liabilities (Due beyond one year):(Note 5)	
Capital related liabilities	1,479,377
Non-capital related liabilities	128,542
Total Liabilities	<u>2,811,703</u>
<b>Net Assets:</b>	
Investments in capital assets (net of related debt)	5,460,798
Restricted net assets:	
Expendable:	
School-based activities	1,215,201
Debt service	270,167
Capital improvements	113,250
Forestry improvements	199,094
Unemployment benefits	42,381
Non-expendable:	
Sixteenth section	318,850
Other	5,348
Unrestricted	3,559,903
Total Net Assets	<u>\$ 11,184,992</u>

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

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

Exhibit B

Functions/Programs	Program Revenues			Expenses	Assets	
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Governmental	Governmental Activities
Primary Government: Governmental Activities:						
Instruction	\$ 8,193,127	1,690,797	-	\$ (6,264,441)		
Support Services	6,079,931	1,186,541	-	(4,893,390)		
Non-instructional	1,154,812	980,315	-	(117,620)		
Sixteenth section	26,376	-	-	(26,376)		
Interest on long-term liabilities	67,911	-	-	(67,911)		
Total governmental activities	\$ 15,522,157	3,857,653	-	(11,369,738)		

General Revenues:	
Taxes:	
General purpose levies	2,592,850
Debt purpose levies	312,701
Unrestricted grants and contributions:	
State	8,425,125
Federal	741,453
Unrestricted investment earnings	172,809
Sixteenth section sources	183,338
Other	94,153
Total General Revenues	12,522,429

Change in Net Assets 1,152,691

Net Assets - Beginning - restated 10,032,301

Net Assets - Ending \$ 11,184,992

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

SOUTH PIKE SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2005

Exhibit C

	Major Funds		Total Governmental Funds
	General Fund	Other Governmental Funds	
<b>ASSETS</b>			
Cash and cash equivalents (Note 2)	\$ 3,733,231	2,607,172	\$ 6,340,403
Due from other government	148,594	198,661	347,255
Due from other funds (Note 3)	66,395	101,040	167,435
Inventories and prepaid items		30,947	30,947
<b>Total Assets</b>	<b>3,948,220</b>	<b>2,937,820</b>	<b>6,886,040</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	635,483	202,162	837,645
Due to other funds (Note 3)	47,145	120,290	167,435
<b>Total Liabilities</b>	<b>682,628</b>	<b>322,452</b>	<b>1,005,080</b>
Fund Balances:			
Reserved for:			
Inventory		30,947	30,947
Unemployment benefits		42,381	42,381
Forestry improvements		199,094	199,094
Unreserved:			
Undesignated, reported in:			
General fund	3,265,592		3,265,592
Special revenue funds		1,184,254	1,184,254
Capital project funds		540,079	540,079
Debt service funds		294,415	294,415
Permanent funds		324,198	324,198
<b>Total Fund Balances</b>	<b>3,265,592</b>	<b>2,615,368</b>	<b>5,880,960</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,948,220</b>	<b>2,937,820</b>	<b>\$ 6,886,040</b>

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

SOUTH PIKE SCHOOL DISTRICT  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2005

Exhibit C-1

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	<u>Amount</u>
Total fund balance - governmental funds	\$ 5,880,960
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 4,409,461. (Note 4)	7,278,090
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(1,949,810)
3. Accrued interest on debt.	(24,248)
Total net assets - governmental activities	<u>\$ 11,184,992</u>

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

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

Exhibit D

	Major Funds		Total Governmental Funds
	General Fund	Other Governmental Funds	
<b>Revenues:</b>			
Local sources	\$ 3,364,192	975,736	\$ 4,339,928
State sources	8,220,731	600,652	8,821,383
Federal sources	111,342	3,191,506	3,302,848
Sixteenth section sources		210,689	210,689
<b>Total Revenues</b>	<b>11,696,265</b>	<b>4,978,583</b>	<b>16,674,848</b>
<b>Expenditures:</b>			
Instruction	6,215,981	1,850,886	8,066,867
Support services	5,325,471	1,488,488	6,813,959
Noninstructional services		1,096,504	1,096,504
Sixteenth section		26,376	26,376
Facilities acquisition and construction		636,314	636,314
<b>Debt service:</b>			
Principal	41,042	297,166	338,208
Interest	4,345	48,980	53,325
Other		16,628	16,628
<b>Total Expenditures</b>	<b>11,586,839</b>	<b>5,461,342</b>	<b>17,048,181</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>109,426</b>	<b>(482,759)</b>	<b>(373,333)</b>
<b>Other Financing Sources:</b>			
Proceeds of loans		500,000	500,000
Inception of capital leases		175,000	175,000
Operating transfers in	523,179	124,872	648,051
Operating transfers out	(245,065)	(402,986)	(648,051)
<b>Total Other Financing Sources (Uses)</b>	<b>278,114</b>	<b>396,886</b>	<b>675,000</b>
<b>Net change in fund balances</b>	<b>387,540</b>	<b>(85,873)</b>	<b>301,667</b>
<b>Fund Balances:</b>			
July 1, 2004	2,873,039	2,710,948	5,583,987
Prior period adjustment (Note 8)	5,013	(5,013)	-
July 1, 2004, as restated	2,878,052	2,705,935	5,583,987
(Decrease) in reserve for inventory		(4,694)	(4,694)
June 30, 2005	\$ 3,265,592	2,615,368	\$ 5,880,960

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

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

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 301,667
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while the governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 1,549,120 and the depreciation expense amounted to \$ 345,919. (Note 4)	1,203,201
2. Payment principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	338,208
3. Gains and losses on sale or disposals of assets are not reported in the government funds, but are reported in the statement of activity.	(18,566)
4. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement activity. (Note 5)	(675,000)
5. Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated Absences Decreases	5,833
Accrued interest on debt Decreases	2,042
6. An increase(+)/decrease (-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	(4,694)
Change in net assets of governmental activities	<u>\$ 1,152,691</u>

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

SOUTH PIKE SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 26,310
Total Assets	<u>26,310</u>
Liabilities	
Accounts payable and accrued liabilities	1,018
Due to student clubs	25,292
Total Liabilities	<u>\$ 26,310</u>

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

SOUTH PIKE SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

*Government-Wide Financial Statements:*

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

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

*Fund Financial Statements:*

Fund financial statements of the school district are organized in 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:

SOUTH PIKE SCHOOL DISTRICT

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

governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty 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.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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.

## SOUTH PIKE SCHOOL DISTRICT

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

#### FIDUCIARY FUNDS

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

D. Account Classifications.

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

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 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 cost of such items are accounted for as expenditures in the period of acquisition.

SOUTH PIKE SCHOOL DISTRICT

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

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:

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.

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.

SOUTH PIKE SCHOOL DISTRICT

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

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

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

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

Reserved for unemployment benefits – An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements – An account that represents the fund balance of the sixteenth section forestry escrow fund which is legally restricted for improvements to sixteenth section forest lands.

SOUTH PIKE SCHOOL DISTRICT

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

Reserved for permanent fund purposes – An account that represents the portion of the fund balance of the sixteenth section principal fund which is legally restricted for investment purposes.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authorities 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.

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 6,340,403 and \$26,310, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$5,519,814 and Restricted Assets \$820,589. The Restricted Assets represents the cash balance of the 16<sup>th</sup> Section Principal Fund (Permanent Fund) and the Qualified Zone Academy Bond (QZAB) Fund which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$ 6,759,572.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$ 6,759,572 was exposed to custodial credit risk.

SOUTH PIKE SCHOOL DISTRICT

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

(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	\$ 66,395	47,145
Other Governmental Funds	101,040	120,290
Total	\$ 167,435	167,435

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

B. Transfers In/Out:

	Transfers In	Transfers Out
Major Funds:		
General Funds	\$ 523,179	245,065
Other Governmental Funds	124,872	402,986
Total	\$ 648,051	648,051

The principal purpose of interfund loans was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

SOUTH PIKE SCHOOL DISTRICT

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

(4) Capital Assets.

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital</u>						
Land	\$ 159,989					159,989
Construction in progress	770,291	636,314		(1,406,605)		-
<b>Total non-depreciable</b>	<b>930,280</b>	<b>636,314</b>	<b>-</b>	<b>(1,406,605)</b>	<b>-</b>	<b>159,989</b>
<u>Depreciable capital assets</u>						
Buildings	6,603,835			415,421		7,019,256
Building improvements	-			991,184		991,184
Improvements other than buildings	66,470					66,470
Mobile equipment	1,677,963	261,500	121,445			1,818,018
Furniture and equipment	1,008,241	476,306	26,913			1,457,634
Leased property under capital leases	-	175,000				175,000
<b>Total depreciable capital</b>	<b>9,356,509</b>	<b>912,806</b>	<b>148,358</b>	<b>1,406,605</b>	<b>-</b>	<b>11,527,562</b>
<u>Less accumulated:</u>						
Buildings	2,474,765	123,609				2,598,374
Building improvements		37,073				37,073
Improvements other than buildings	26,588	2,659				29,247
Mobile equipment	804,360	132,688	103,148			833,900
Furniture and equipment	887,621	42,890	26,644			903,867
Leased property under capital leases		7,000				7,000
<b>Total accumulated depreciation</b>	<b>4,193,334</b>	<b>345,919</b>	<b>129,792</b>	<b>-</b>	<b>-</b>	<b>4,409,461</b>
<b>Total depreciable capital assets, net</b>	<b>5,163,175</b>	<b>566,887</b>	<b>18,566</b>	<b>1,406,605</b>	<b>-</b>	<b>7,118,101</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 6,093,455</b>	<b>1,203,201</b>	<b>18,566</b>	<b>-</b>	<b>-</b>	<b>7,278,090</b>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 129,837
Support services	161,884
Non-instructional	54,198
<b>Total depreciation expense</b>	<b>\$ 345,919</b>

SOUTH PIKE SCHOOL DISTRICT

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

(5) Long-term liabilities.

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

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

	Balance <u>7-1-2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6-30-2005</u>	Amounts due within one year
A. General obligation bonds payable	\$ 455,000	\$ -	\$ (105,000)	\$ 350,000	\$ 110,000
B. Three mill - ten year notes payable	1,000,000	-	(192,166)	807,834	194,617
C. Obligation under capital leases		175,000	(15,542)	159,458	33,298
D. Qualified zone academy bonds payable		500,000		500,000	
E. Other loans payable	25,500	-	(25,500)	-	
F. Compensated absences payable	138,351	-	(5,833)	132,518	3,976
Total	<u>\$ 1,618,851</u>	<u>\$ 675,000</u>	<u>\$ (344,041)</u>	<u>\$ 1,949,810</u>	<u>\$ 341,891</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds Series 1998	4.0% - 4.5%	3/1/1998	3/1/2008	\$ 1,000,000	350,000
Total				<u>\$ 1,000,000</u>	<u>350,000</u>

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	110,000	14,820	124,820
2007	115,000	10,200	125,200
2008	125,000	5,313	130,313
Total	<u>\$ 350,000</u>	<u>\$ 30,333</u>	<u>\$ 380,333</u>

SOUTH PIKE SCHOOL DISTRICT

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

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

B. Three mill – ten year notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
3 mill notes payable	2.48%	9/19/2003	8/15/2008	\$ 1,000,000	807,834
				<hr/>	<hr/>
Total				<u>\$ 1,000,000</u>	<u>807,834</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	194,617	19,994	214,611
2007	199,434	15,177	214,611
2008	204,370	10,241	214,611
2009	<u>209,413</u>	<u>5,197</u>	<u>214,610</u>
Total	<u>\$ 807,834</u>	<u>\$ 50,609</u>	<u>\$ 858,443</u>

This debt will be retired from the EEF Buildings and Buses Fund and the Three Mill Notes Retirement Fund.

C. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of lighting upgrades at the school facilities.

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

SOUTH PIKE SCHOOL DISTRICT

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 33,298	5,337	38,635
2007	34,483	4,152	38,635
2008	35,711	2,924	38,635
2009	36,983	1,652	38,635
2010	18,983	335	19,318
Total	<u>\$ 159,458</u>	<u>14,400</u>	<u>173,858</u>

This debt will be retired from the District Maintenance Fund.

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	0%	1/15/2005	10/13/2014	<u>\$ 500,000</u>	<u>500,000</u>
Total				<u>\$ 500,000</u>	<u>500,000</u>

E. Other loans payable.

Other loans payable of the District were paid off during the fiscal year.

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

SOUTH PIKE SCHOOL DISTRICT

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

(6) Defined Benefit Pension Plan.

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

**Funding Policy.** PERS members are required to contribute 7.25 % of their annual covered salary, 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 \$ 854,173, \$ 788,787, and \$ 708,487, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising 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	\$ 30,203
2007	20,148
2008	14,743
2009	14,134
2010	8,254
2011-2015	9,376
2016-2020	1,300
2021-2025	500
2026-2030	500
2031-2035	500
2036-2040	500
2041-2045	100
Total	\$ 100,258

SOUTH PIKE SCHOOL DISTRICT

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

( 8 ) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

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

<u>Major Funds:</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	To correct recording in proper fund	\$ 5,013
Other Governmental Funds	To correct recording in proper fund	\$ (5,013)
	Total	<u>\$ 0</u>

( 9 ) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately ninety school districts and cover risks of loss arising from injuries to the school district employees. The Mississippi Worker's 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 MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to \$ 400,000. For a claim exceeding \$ 400,000, MSBAWCT has insurance which will pay the excess up to \$ 25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not has an additional assessment for excess losses incurred by the pool.

SOUTH PIKE SCHOOL DISTRICT

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

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank and Hancock Bank, has entered into such an agreement dated January 15, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 35,000
2007	35,000
2008	35,000
2009	175,000
2010	<u>74,475</u>
Total	<u>\$ 354,475</u>

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	2,938,190	2,938,190	3,364,192	-	426,002
State sources	8,160,828	8,160,828	8,220,731	-	59,903
Federal sources	113,626	113,626	111,342	-	(2,284)
<b>Total Revenues</b>	<b>11,212,644</b>	<b>11,212,644</b>	<b>11,696,265</b>	<b>-</b>	<b>483,621</b>
<b>Expenditures:</b>					
Instruction	6,464,124	6,682,212	6,215,981	(218,088)	466,231
Support services	5,591,658	5,652,570	5,325,471	(60,912)	327,099
Non-instructional services					
Debt service:					
Principal	25,500	41,042	41,042	(15,542)	-
Interest	570	4,345	4,345	(3,775)	-
<b>Total Expenditures</b>	<b>12,081,852</b>	<b>12,380,169</b>	<b>11,586,839</b>	<b>(298,317)</b>	<b>793,330</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(869,208)</b>	<b>(1,167,525)</b>	<b>109,426</b>	<b>(298,317)</b>	<b>1,276,951</b>
<b>Other Financing Sources:</b>					
Inception of capital leases				-	-
Insurance loss recoveries				-	-
Operating transfers in	801,328	651,327	523,179	(150,001)	(128,148)
Other financing sources				-	-
Operating transfers out	(158,000)	(158,000)	(245,065)	-	(87,065)
Other financing uses				-	-
<b>Total Other Financing Sources (Uses)</b>	<b>643,328</b>	<b>493,327</b>	<b>278,114</b>	<b>(150,001)</b>	<b>(215,213)</b>
<b>Special Items</b>				-	-
<b>Extraordinary Items</b>				-	-
<b>Net change in fund balances</b>	<b>(225,880)</b>	<b>(674,198)</b>	<b>387,540</b>	<b>(448,318)</b>	<b>1,061,738</b>
<b>Fund Balances:</b>					
July 1, 2004	925,914	1,836,784	2,873,039	(1,871,206)	624,078
Prior period adjustment (Note 9)			5,013		
July 1, 2004, as restated	925,914	1,836,784	2,878,052	(1,871,206)	624,078
June 30, 2005	700,034	1,162,586	3,265,592	(2,319,524)	1,685,816

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

SOUTH PIKE SCHOOL DISTRICT

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

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

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

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education		
Non-cash assistance:		
Food distribution	10.550	71,523
Child nutrition cluster:		
School breakfast program	10.553	288,850
National school lunch program	10.555	564,789
Total		853,639
Total U.S. Department of Agriculture		925,162
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,126,907
Vocational education - basic grants to states	84.048	41,454
Safe and drug-free schools and communities - national grants	84.184	1,808
Safe and drug-free schools and communities - state grants	84.186	21,597
Eisenhower professional development state grants	84.281	130,868
State grants for innovative programs	84.298	5,016
Education technology state grants	84.318	198,219
Comprehensive school reform demonstration	84.332	65,000
Reading first state grants	84.357	191,410
Rural education	84.358	75,882
Improving teacher quality state grant	84.367	213,768
Grants for state assessments and related activities	84.369	3,784
Total		2,075,713
Special education cluster:		
Special education - grants to states	84.027	283,362
Special education - preschool grants	84.173	13,354
Total		296,716
Total Passed-through Mississippi Department of Education		2,372,429
Total U.S. Department of Education		2,372,429
Total for All Federal Awards		\$ 3,297,591

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 general purpose financial statements.
- 2) The expenditure amounts include transfers out.
- 3) The pass-through entities did not assign identification numbers to the school district.

South Pike 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	\$ 11,147,396	7,195,440	1,400,795	2,551,161
Other	<u>5,900,785</u>	<u>871,427</u>	<u>378,215</u>	<u>4,651,143</u>
Total	<u>\$ 17,048,181</u>	<u>8,066,867</u>	<u>1,779,010</u>	<u>7,202,304</u>
Total number of students *	1,897			
Cost per student \$	<u>8,987</u>	<u>4,252</u>	<u>938</u>	<u>3,797</u>

For purposes of this schedule, the following columnar descriptions are applicable:

**Instruction** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000 functional codes)

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

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

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

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

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

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

February 8, 2006

Superintendent and School Board  
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2005, which collectively comprise the South Pike School District's basic financial statements and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*McDaniel CPA Firm*

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER  
Mississippi Society  
of Certified Public  
Accountants

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

February 8, 2006

Superintendent and School Board  
South Pike School District

Compliance

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

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

In our opinion, South Pike School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

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

February 8, 2006

Superintendent and School Board  
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2005, which collectively comprise South Pike School District's basic financial statements and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* as issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 15,245 of classroom supply funds carried over from previous years.

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

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

*McDaniel CPA Firm*

SOUTH PIKE 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 general purpose financial statements:	unqualified
2 .	Material noncompliance relating to the general purpose financial statements:	no
3 .	Internal control over financial reporting:	
	a. Material weakness(es) identified?	no
	b. Reportable condition(s) identified that are not considered to be material weaknesses?	no

**Federal Awards:**

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

## Section 2: Financial Statement Findings

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

## Section 3: Federal Award Findings and Questioned Costs

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