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STARKVILLE SCHOOL DISTRICT
FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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

Superintendent and School Board
Starkville School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2005, which collectively comprise the Starkville School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Starkville 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 opinions.

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 Starkville 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 January 25, 2006, on our consideration of the Starkville School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 46 through 49 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. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

January 25, 2006
Tupelo, Mississippi

Handwritten signature in cursive script that reads "J. E. Vance & Company".

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Starkville 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,593,591, which represents a 21% increase from fiscal year 2004. Total net assets for 2004 increased \$951,371, which represents a 13% increase from fiscal year 2003.
- General revenues account for \$24,672,088 and \$24,205,349 in revenue, or 74% of all revenues for both fiscal years 2005 and 2004. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,610,363 or 26% of total revenue for 2005 and \$8,571,744 or 26% of total revenues for 2004.
- The District had \$31,822,151 and \$32,078,783 in expenses for fiscal years 2005 and 2004; only \$8,610,363 for 2005 and \$8,571,744 for 2004 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$24,672,088 for 2005 and \$24,205,349 for 2004 were adequate to provide for these programs.
- Among major funds, the General Fund had \$23,618,864 in revenues and \$23,816,298 in expenditures for 2005, and \$23,340,156 in revenues and \$24,760,901 in expenditures for 2004. The General Fund's fund balance increased \$551,779 from 2004 to 2005, and increased \$871,949 from 2003 to 2004.
- Capital assets, net of accumulated depreciation, decreased by \$442,598 for 2005 and \$336,553 for 2004.
- Long-term debt decreased by \$1,056,648 for 2005 and \$503,282 for 2004.

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 and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 - 16 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 18 and 20, 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 17 and 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets on page 21.

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 22 - 44 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 special revenue fund. This required supplementary information can be found on pages 45 - 49 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 51 - 53 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 \$9,133,580 as of June 30, 2005, and by \$7,539,989 as of June 30, 2004.

By far the largest portion of the District's net assets (50 % for 2005 and 52% for 2004) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and 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 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 years ended June 30, 2005 and 2004.

	2005	2004	\$ Variance	% Variance
Current assets	\$ 5,040,960	\$ 5,460,189	(419,229)	-7.68%
Capital assets, net	15,512,216	15,954,814	(442,598)	-2.77%
Total assets	<u>20,553,176</u>	<u>21,415,003</u>	(861,827)	-4.02%
Current liabilities	217,657	1,616,427	1,398,770	86.53%
Long-term debt outstanding	11,201,939	12,258,587	1,056,648	8.62%
Total liabilities	<u>11,419,596</u>	<u>13,875,014</u>	2,455,418	17.70%
Net assets:				
Invested in capital assets, net of related debt	4,534,467	3,911,131	(623,336)	-15.94%
Restricted	2,761,003	2,333,242	(427,761)	-18.33%
Unrestricted	1,838,110	1,295,616	(542,494)	-41.87%
Total net assets	<u>\$ 9,133,580</u>	<u>\$ 7,539,989</u>	(1,593,591)	-21.14%

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2005 and 2004 were \$33,282,451 and \$32,777,093, respectively. The total cost of all programs and services was \$31,822,151 and \$32,078,783 for 2005 and 2004, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	2005	2004	\$ Variance	% Variance
Revenues:				
Program revenues	\$ 8,610,363	\$ 8,571,744	38,619	0.45%
General revenues	24,672,088	24,205,349	466,739	1.93%
Total revenues	<u>33,282,451</u>	<u>32,777,093</u>	505,358	1.54%
Expenses:				
Instruction	18,931,428	18,870,552	60,876	0.32%
Support services	10,465,930	10,662,970	(197,040)	-1.85%
Non-instructional	2,027,642	2,106,273	(78,631)	-3.73%
Sixteenth section	9,236		9,236	N/A
Interest on long-term liabilities	387,915	438,988	(51,073)	-11.63%
Total expenses	<u>31,822,151</u>	<u>32,078,783</u>	(256,632)	-0.80%
Increase (decrease) in net assets before special items	<u>1,460,300</u>	<u>698,310</u>	761,990	109.12%
Special Items	<u>-0-</u>	<u>202,827</u>	(202,827)	-100.00%
Increase (decrease) in net assets	<u>\$ 1,460,300</u>	<u>\$ 901,137</u>	559,163	62.05%

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

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 18,931,428	\$ (15,727,801)	\$ 18,870,552	\$ (15,660,876)
Support services	10,465,930	(7,329,647)	10,662,970	(7,469,159)
Non-instructional	2,027,642	242,811	2,106,273	61,984
Sixteenth section	9,236	(9,236)	-0-	-0-
Interest on long-term liabilities	387,915	(387,915)	438,988	(438,988)
Total expenses	<u>\$ 31,822,151</u>	<u>\$ (23,211,788)</u>	<u>\$ 32,078,783</u>	<u>\$ (23,507,039)</u>

- Net cost of governmental activities (\$23,211,788 for 2005 and \$23,507,039 for 2004), was financed by general revenue, which is made up of primarily property taxes (\$9,764,058 for 2005 and \$9,500,873 for 2004) and state revenue (\$14,505,536 for 2005 and \$14,379,231 for 2004).
- Investment earnings accounted for \$90,348 and \$81,414 of funding for 2005 and 2004, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,890,624 for 2005, an increase of \$971,367 from 2004 and \$3,919,257 for 2004, an increase of \$782,113 from 2003. \$4,677,612 or 96% for 2005, and \$3,692,802 or 94% for 2004 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 \$213,012 or 4% for 2005 and \$226,455 or 6% for 2004 is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

	2005	2004
Unemployment Benefits	\$ 99,661	\$ 99,547
Forestry improvements	88,378	90,623
Inventory	24,973	36,285
Total assets	<u>\$ 213,012</u>	<u>\$ 226,455</u>

The General Fund is the principal operating fund of the District. The fund balance in the General Fund showed an increase of \$577,170 for 2005 and \$871,949 for 2004. The fund balance of Other Governmental Funds showed a decrease for 2005 and an increase for 2004.

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets were \$25,433,466 for 2005 and \$25,280,328 for 2004, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$153,138 from 2004 to 2005 and an increase of \$264,162 from 2003 to 2004. Total accumulated depreciation was \$9,921,250 for 2005 and \$9,325,514 for 2004. Total depreciation expense was \$681,007 for 2005 and \$652,998 for 2004, resulting in total net assets of \$15,512,216 for 2005 and \$15,954,814 for 2004.

Additional information of the District's capital assets can be found in Note 5 on page 32 of this report.

Debt Administration. At June 30, 2005, the District had \$11,201,939 in general obligation bonds and other long-term debt outstanding, of which \$893,722 is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on pages 33 - 39 of this report.

CURRENT ISSUES

The Starkville 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 District 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Starkville School District, 401 Greensboro Street, Starkville, MS 39759.

FINANCIAL STATEMENTS

STARKVILLE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 4,153,175
Cash with fiscal agents (Note 3)	108,224
Due from other governments	740,259
Accrued interest receivable	124
Other receivables	2,989
Inventories and prepaid items	30,599
Restricted assets	5,590
Capital assets, net (Note 5)	<u>15,512,216</u>
Total Assets	<u>\$ 20,553,176</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 150,336
Interest payable on long-term liabilities	67,321
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	893,722
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	10,084,027
Non-capital related liabilities	<u>224,190</u>
Total Liabilities	<u>\$ 11,419,596</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 4,534,467
Restricted net assets:	
Expendable:	
School-based activities	1,878,711
Capital improvements	12
Debt service	688,528
Forestry improvements	88,378
Unemployment benefits	99,661
Non-expendable:	
Sixteenth section	5,713
Unrestricted	<u>1,838,110</u>
Total Net Assets	<u>\$ 9,133,580</u>

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

**STARKVILLE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 18,931,428	1,195,914	2,007,713		(15,727,801)
Support services	10,465,930	748,200	2,257,732	130,351	(7,329,647)
Non-instructional	2,027,642	482,025	1,788,428		242,811
Sixteenth section	9,236				(9,236)
Interest on long-term liabilities and other expenses	387,915				(387,915)
Total governmental activities	\$ 31,822,151	2,426,139	6,053,873	130,351	(23,211,788)
General Revenues:					
Taxes:					
					8,820,841
					943,217
Unrestricted grants and contributions:					
					14,505,536
					161,364
					90,348
					28,069
					122,713
					<u>24,672,088</u>
					1,460,300
					7,539,989
					133,291
					<u>7,673,280</u>
					<u>\$ 9,133,580</u>

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

**STARKVILLE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Major Funds					Total Governmental Funds
	General Fund	School Food Service	Quad Fund	Note Debt Service Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents (Note 3)	\$ 1,451,310	942,908	16,076	385,827	1,362,644	4,158,765
Cash with fiscal agents (Note 3)					108,224	108,224
Due from other governments	337,665		105,451	4,129	293,014	740,259
Accrued interest					124	124
Due from other funds (Note 4)	318,802					318,802
Inventories and prepaid items	5,626	24,973				30,599
Total Assets	\$ 2,113,403	967,881	121,527	389,956	1,764,006	5,356,773
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 952	149,384				150,336
Due to other funds (Note 4)	50,150		83,000	182,663		315,813
Total Liabilities	51,102	149,384	83,000	182,663	-0-	466,149
Fund Balances:						
Reserved for:						
Unemployment benefits					99,661	99,661
Forestry improvements					88,378	88,378
Inventory		24,973				24,973
Prepaid items	5,626					5,626
Permanent fund					5,713	5,713
Debt service				207,293	548,556	755,849
Unreserved:						
Undesignated, reported in:						
General fund	2,056,675					2,056,675
Special Revenue funds		793,524	38,527		1,021,686	1,853,737
Capital Projects funds					12	12
Total Fund Balances	2,062,301	818,497	38,527	207,293	1,764,006	4,890,624
Total Liabilities and Fund Balances	\$ 2,113,403	967,881	121,527	389,956	1,764,006	5,356,773

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

**STARKVILLE SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Amount
Total Fund Balance - Governmental Funds	\$ 4,890,624
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$9,921,250. (Note 5)	15,512,216
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(11,201,939)
3. Interest payable on long-term liabilities	(67,321)
	\$ 9,133,580
Total Net Assets - Governmental Activities	\$ 9,133,580

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

STARKVILLE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Major Fund					Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Quad Fund	Note Debt Service Fund			
Revenues:							
Local sources	\$ 8,967,050	446,559	750,959	229,906	1,930,031	12,324,505	
Intermediate sources	14,985				51,980	66,965	
State sources	14,388,181	10,609			1,282,977	15,681,767	
Federal sources	248,648	1,406,303			3,514,402	5,169,353	
Sixteenth section sources					28,096	28,096	
Total Revenues	23,618,864	1,863,471	750,959	229,906	6,807,486	33,270,686	
Expenditures:							
Instruction	14,462,914		425,546		3,618,116	18,506,576	
Support services	7,705,082	163,011	316,707		2,146,850	10,331,650	
Noninstructional services	6,985	1,556,756			522,022	2,085,763	
Sixteenth section					9,236	9,236	
Debt service:							
Principal	1,613,971			413,908	629,055	2,656,934	
Interest	27,346			30,221	337,037	394,604	
Other					1,485	1,485	
Total Expenditures	23,816,298	1,719,767	742,253	444,129	7,263,801	33,986,248	
Excess (Deficiency) of Revenues Over Expenditures	(197,434)	143,704	8,706	(214,223)	(456,315)	(715,562)	
Other Financing Sources (Uses):							
Proceeds of loans	1,591,000					1,591,000	
Sale of transportation equipment	1,317					1,317	
Operating transfers in	961,768	50,000	12,000	425,982	627,796	2,077,546	
Other financing sources	10,450					10,450	
Operating transfers out	(1,648,335)	(155,000)			(274,211)	(2,077,546)	
Total Other Financing Sources (Uses)	905,750	(94,550)	12,000	425,982	353,585	1,602,767	
Net Change in Fund Balances	708,316	49,154	20,706	211,759	(102,730)	887,205	
Fund Balances:							
July 1, 2004	1,510,522	780,655	(44,466)	(4,466)	1,677,012	3,919,257	
Prior period adjustments (Note 10)	(156,537)		62,287		189,724	95,474	
July 1, 2004, as restated	1,353,985	780,655	17,821	(4,466)	1,866,736	4,014,731	
Increase (Decrease) in reserve for inventory		(11,312)				(11,312)	
June 30, 2005	2,062,301	818,497	38,527	207,293	1,764,006	4,890,624	

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

**STARKVILLE SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 887,205
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$214,946 and the depreciation expense amounted to \$681,007. (Note 5)	(466,061)
2. Proceeds of long-term liabilities are reported in the governmental funds, not in the Statement of Activities.	(1,591,000)
3. Payment of principal on long-term liabilities is reported as an the governmental funds, but the payment reduces long-term liabilities in statement of activities.	2,656,934
4. Losses from the disposal of capital assets are not reported in governmental funds, but the losses increase expenditures in the statement of activities.	(14,354)
5. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$67,321, which is a decrease from last year.	8,174
6. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences increased to \$224,190.	(9,286)
7. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activities.	(11,312)
Change in Net Assets of Governmental Activities	\$ 1,460,300

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

**STARKVILLE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ <u>87,913</u>
Total Assets	\$ <u><u>87,913</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 64,204
Due to other funds (Note 4)	2,989
Due to student clubs	<u>20,720</u>
Total Liabilities	\$ <u><u>87,913</u></u>

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

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

Note 1: Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Government-wide Financial Statements

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

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements

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

C. Measurement Focus and Basis of Accounting

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

The school district reports the following major governmental funds:

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

School Food Service Fund - This is the school district's fund for accounting for the food service operation for the regular school year.

Quad Fund - This is the school district's fund for accounting for the operation of the Quad County Alternative School

Note Debt Service Fund - This is the school district's fund for accounting for the repayment of the district's long-term debt.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

D. Account Classifications

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

E. Encumbrances

An 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 consists 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. 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.

H. Capital Assets

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

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

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

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

	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 5 for details.

I. Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

J. 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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

J. Interfund Transactions and Balances (Continued)

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 4 for details for interfund transactions, including receivables and payables at year-end.

K. 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:

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

K. Equity Classifications (Continued)

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.

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

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

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

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

L. Property Taxes

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

M. 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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

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

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

O. Other Significant Accounting Policies

The Debt Service Funds for long-term debt issued prior to April 15, 1986, under the provisions of Section 37-59-101, Miss. Code Ann. (1972), *et seq.*, and prior to March 3, 1987, under the provisions of Section 37-59-1, Miss. Code Ann. (1972), *et seq.*, are maintained by the governing authority of the city and are not included in the government-wide financial statements of the school district. The borrowing of money by the issuance of the debt referred to above was a function of the governing authority of the city prior to April 15, 1986, or March 3, 1987, as the case may be.

In our state, school boards and superintendents had no responsibility in connection with the debt issued before the dates referred to above. The payment of this debt is an obligation of the governing authority of the city who is acting for the school district.

In connection with any debt issued subsequent to the dates referred to above, the school board is responsible for the issuance and maintenance of school district related debt.

Note 2: Changes in Accounting Standards

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 3: Cash, Cash Equivalents and Cash with Fiscal Agents

Cash and Cash Equivalents

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,158,765 and \$87,913, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$4,153,175 and Restricted Assets \$5,590. The Restricted Assets represents the cash balance of the 16th section Principal (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$6,804,835.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$6,804,835 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$108,224.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 4: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 318,802	50,150
Other major funds		
Quad fund		83,000
Other governmental funds		182,663
Fiduciary funds		<u>2,989</u>
Total	<u>\$ 318,802</u>	<u>318,802</u>

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

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 961,768	1,648,335
Other major funds		
School food service fund	50,000	155,000
Quad	12,000	
Note debt service fund	425,982	
Other governmental funds	<u>627,796</u>	<u>274,211</u>
Total	<u>\$ 2,077,546</u>	<u>2,077,546</u>

The principal purpose of interfund transfers 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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 5: Capital Assets

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

	Balance 7/1/2004	Additions	Retirements	Adjustments *	Balance 6/30/2005
<u>Non-depreciable capital assets</u>					
Land	\$ 187,470				187,470
Total non-depreciable capital assets	<u>187,470</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>187,470</u>
<u>Depreciable capital assets</u>					
Buildings	19,694,079				19,694,079
Improvements other than buildings	2,023,824			53,990	2,077,814
Mobile equipment	2,019,086	122,515	(84,854)	9,364	2,066,111
Furniture and equipment	1,121,925	92,431	(18,841)	(21,467)	1,174,048
Leased property under capital leases	233,944				233,944
Total depreciable assets	<u>25,092,858</u>	<u>214,946</u>	<u>(103,695)</u>	<u>41,887</u>	<u>25,245,996</u>
<u>Less accumulated depreciation for:</u>					
Buildings	6,883,782	355,428			7,239,210
Improvements other than buildings	236,459	88,589		45,814	370,862
Mobile equipment	1,399,362	114,768	(76,369)	5,298	1,443,059
Furniture and equipment	768,479	112,864	(12,972)	(47,042)	821,329
Leased property under capital leases	37,432	9,358			46,790
Total accumulated depreciation	<u>9,325,514</u>	<u>681,007</u>	<u>(89,341)</u>	<u>4,070</u>	<u>9,921,250</u>
Total depreciable capital assets, net	<u>15,767,344</u>	<u>(466,061)</u>	<u>(14,354)</u>	<u>37,817</u>	<u>15,324,746</u>
Governmental activities capital assets, net	<u>\$ 15,954,814</u>	<u>(466,061)</u>	<u>(14,354)</u>	<u>37,817</u>	<u>15,512,216</u>

* - These adjustments are to correct prior year errors.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 469,674
Support services	158,250
Non-instructional	53,083
	<u>\$ 681,007</u>

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. General obligation bonds payable	8,260,000		505,000	7,755,000	510,000
B. Limited obligation bonds payable	\$ 1,965,000		100,000	1,865,000	105,000
C. Limited tax notes payable	1,335,411		413,908	921,503	187,843
D. Shortfall notes payable	28,000		14,000	14,000	14,000
E. Obligations under capital lease	27,311		10,055	17,256	13,754
F. Obligations under energy efficiency lease	176,891		22,971	153,920	22,558
G. Other loans payable	251,070	1,591,000	1,591,000	251,070	40,567
H. Compensated absences payable	214,904	9,286		224,190	
Total	<u>\$ 12,258,587</u>	<u>1,600,286</u>	<u>2,656,934</u>	<u>11,201,939</u>	<u>893,722</u>

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

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
1995 general obligation bonds	varies	12/01/95	12/01/15	\$ 6,600,000	\$ 265,000
1996 general obligation bonds	varies	03/01/96	03/01/16	3,200,000	130,000
2003 general obligation bonds	2.89%	06/25/03	12/01/15	<u>7,470,000</u>	<u>7,360,000</u>
Total				<u>\$ 17,270,000</u>	<u>\$ 7,755,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 510,000	212,170	722,170
2007	580,000	193,275	773,275
2008	630,000	181,175	811,175
2009	690,000	167,630	857,630
2010	650,000	152,260	802,260
2011-2015	3,775,000	449,633	4,224,633
2016-2020	<u>920,000</u>	<u>15,180</u>	<u>935,180</u>
Total	<u>\$ 7,755,000</u>	<u>1,371,323</u>	<u>9,126,323</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 4% of property assessments as of October 2004. This debt will be retired from the debt service fund.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

B. Limited obligation bonds payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds	varies	04/01/98	04/01/18	\$ <u>2,400,000</u>	\$ <u>1,865,000</u>
Total				\$ <u>2,400,000</u>	\$ <u>1,865,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 105,000	90,950	195,950
2007	110,000	85,700	195,700
2008	115,000	80,200	195,200
2009	120,000	80,200	200,200
2010	130,000	74,450	204,450
2011-2015	745,000	275,360	1,020,360
2016-2020	<u>540,000</u>	<u>86,640</u>	<u>626,640</u>
Total	\$ <u>1,865,000</u>	<u>773,500</u>	<u>2,638,500</u>

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

C. Limited tax 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>
Limited tax notes 1997	4.65%	10/15/97	10/15/07	\$ 835,000	\$ 289,728
Limited tax notes 1999	4.94%	07/01/99	07/01/09	700,000	384,775
Limited tax notes 2004	3.49%	07/15/03	07/15/13	270,000	247,000
Total				<u>\$ 1,805,000</u>	<u>\$ 921,503</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	\$ 187,843	41,043	228,886
2007	196,522	32,364	228,886
2008	203,028	25,858	228,886
2009	108,480	13,838	122,318
2010	106,259	13,954	120,213
2011-2013	119,371	8,517	127,888
Total	<u>\$ 921,503</u>	<u>135,574</u>	<u>1,057,077</u>

This debt will be retired from the Note Debt Service fund.

D. Shortfall 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>
Revenue shortfall note	4.40%	10/01/02	10/01/05	\$ 42,000	\$ 14,000
Total				<u>\$ 42,000</u>	<u>\$ 14,000</u>

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

D. Shortfall notes payable (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 14,000	643	14,643
Total	\$ <u>14,000</u>	<u>643</u>	<u>14,643</u>

This debt will be retired from the note debt service fund.

E. Obligations under capital lease

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 band uniforms.

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 13,754	355	14,109
2007	3,502	26	3,528
Total	\$ <u>17,256</u>	<u>381</u>	<u>17,637</u>

This debt will be retired from the Note Debt Service 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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

F. Obligations under energy efficiency lease

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 22,558	8,090	30,648
2007	23,862	6,786	30,648
2008	25,240	5,408	30,648
2009	26,699	3,949	30,648
2010	28,241	2,407	30,648
2011-2014	27,320	775	28,095
Total	\$ 153,920	27,415	181,335

An energy efficiency lease agreement dated April 23, 2001 was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$233,944 for the purchase of energy efficiency equipment, machinery, supplies, building modifications, and other energy saving items. Payments of the lease shall be made from the district maintenance fund and are not to exceed ten (10) years.

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

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

This debt will be retired from the district maintenance fund.

G. Other loans payable

The school district has issued debt instruments granted under the authority of Section 57-39-205, Miss. Code Ann. (1972).

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 6: Long-term Liabilities (Continued)

G. Other loans payable (continued)

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>
Energy efficiency loan	1.25%	05/01/04	05/01/10	\$ 291,125	\$ 251,070
Total				<u>\$ 291,125</u>	<u>\$ 251,070</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	\$ 40,567	3,137	43,704
2007	41,064	2,631	43,695
2008	41,577	2,117	43,694
2009	42,097	1,598	43,695
2010	42,623	1,071	43,694
2011-2014	43,142	539	43,681
Total	<u>\$ 251,070</u>	<u>11,093</u>	<u>262,163</u>

This debt will be retired from the district maintenance fund.

H. Compensated absences payable

As more fully explained in Note 1(N), 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.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 7: Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 \$1,934,164, \$1,796,727 and \$1,690,080, respectively, which equaled the required contributions for each year.

Note 8: Other Commitments

Operating Leases:

The school district has operating leases for seven Konica copiers.

Lease expenditures for the year ended June 30, 2005, amounted to \$12,268. Future lease payments for this lease are as follows:

Year Ending June 30,	Amount
2006	\$ 11,754
2007	6,792
2008	6,792
Total	\$ <u>25,338</u>

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 9: Sixteenth Section Lands

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

Year Ending June 30,	Amount
2006	\$ 10,606
2007	10,306
2008	10,306
2009	5,526
2010	3,960
2011-2015	7,250
2016-2020	7,250
2021-2025	7,250
2026-2030	5,800
Total	\$ 68,254

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 10: Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
1. To correct a prior year error in recording an asset or liability	37,817
2. To record prior year revenue	95,474
Total	<u>\$ 133,291</u>

Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major fund:</u>	<u>Explanation</u>	
General Fund	To record prior year expense	(156,537)
Quad Fund	To record prior year revenue	62,287
Other Governmental Funds	To record prior year revenue	189,724
	Total	<u>\$ 95,474</u>

Note 11: Risk Management

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

Note 12: Uncertainties

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). Because some of the school districts which share townships with Starkville School District did not file lists of children as required, no division of sixteenth section revenues has been recorded as a receivable or payable, as the case may be.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 12: Uncertainties (Continued)

Of the townships Starkville School District shares with other school districts, Starkville School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Starkville School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the sixteenth section property, Starkville School District may be entitled to a portion of the sixteenth section revenues the other school district(s) received. Because some of the school districts did not compile and file lists of children as state law requires in either the current year or in preceding years, neither the amounts of the liabilities owed to other school districts nor the amounts of receivables from other school districts can be determined.

Note 13: Prior Year Defeasance of Debt

In prior years, the Starkville School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2005, \$6,665,000 of bonds outstanding are defeased.

Note 14: Alternative School Consortium

The school district entered into an Alternative School Agreement dated September 2, 1993 creating the Quad County Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Starkville School District, the Louisville School District, the Noxubee County School District, the Oktibbeha County School District, the Choctaw County School District, and the Lowndes County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972) allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead school district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Starkville School District has been designated as the lead school district for the Quad County Alternative School, and the operations of the consortium are included in its financial statements.

The following Statement of Revenues, Expenditures, and Changes in Fund Balance is presented to detail the financial activity of the Quad County Alternative School.

**STARKVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 14: Alternative School Consortium (Continued)

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

Revenues

Local sources

Tuition from other LEA's within the state

Choctaw County School District	\$ 75,400
Louisville School District	98,600
Noxubee County School District	87,000
Oktibbeha County School District	69,600
Lowndes County School District	232,000
Starkville School District	<u>197,600</u>

Total tuition from other LEA's within the state	<u>760,200</u>
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Contributions and donations	1,500
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Interest	<u>1,259</u>
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Total local sources	<u>762,959</u>
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Total Revenue	<u>762,959</u>
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Expenditures

Salaries	539,177
Employee benefits	141,995
Purchased professional and technical services	25,190
Supplies	7,914
Property	4,142
Other professional services	<u>23,834</u>

Total Expenditures	<u>742,252</u>
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Excess of Revenues Over Expenditures	<u>20,707</u>
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Net Change in Fund Balance	<u>20,707</u>
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Fund Balance

July 1, 2004	(44,466)
Prior period adjustments: (Note 10)	<u>62,287</u>
July 1, 2004, as restated	<u>17,821</u>
June 30, 2005	<u>\$ 38,528</u>

REQUIRED SUPPLEMENTARY INFORMATION

STARKVILLE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Original	Final
	Original	Final			
Revenues:					
Local sources	\$ 8,614,900	9,300,144	8,967,050	685,244	(333,094)
Intermediate sources	12,000	14,985	14,985	2,985	-0-
State sources	13,870,105	14,333,909	14,388,181	463,804	54,272
Federal sources	127,600	237,677	248,648	110,077	10,971
Total Revenues	<u>22,624,605</u>	<u>23,886,715</u>	<u>23,618,864</u>	<u>1,262,110</u>	<u>(267,851)</u>
Expenditures:					
Instruction	14,177,345	14,425,943	14,462,914	(248,598)	(36,971)
Support services	6,493,984	7,674,101	7,705,082	(1,180,117)	(30,981)
Noninstructional services	2,500	6,985	6,985	(4,485)	-0-
Facilities acquisition and construction		30,982		(30,982)	30,982
Debt service:					
Principal	59,706	1,616,883	1,613,971	(1,557,177)	2,912
Interest	14,636	24,434	27,346	(9,798)	(2,912)
Other		221,413		(221,413)	221,413
Total Expenditures	<u>20,748,171</u>	<u>24,000,741</u>	<u>23,816,298</u>	<u>(3,252,570)</u>	<u>184,443</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>1,876,434</u>	<u>(114,026)</u>	<u>(197,434)</u>	<u>(1,990,460)</u>	<u>(83,408)</u>
Other Financing Sources (Uses):					
Proceeds of loans		1,591,000	1,591,000	1,591,000	-0-
Insurance loss recoveries	4,500			(4,500)	-0-
Sale of transportation equipment		1,318	1,317	1,318	-0-
Operating transfers in	959,886	925,086	961,768	(34,800)	36,682
Operating transfers out	(1,690,256)	(1,648,336)	(1,648,335)	41,920	1
Total Other Financing Sources (Uses)	<u>(725,870)</u>	<u>869,068</u>	<u>905,750</u>	<u>1,594,938</u>	<u>36,683</u>
Net Change in Fund Balances	<u>1,150,564</u>	<u>755,042</u>	<u>708,316</u>	<u>(395,522)</u>	<u>(46,725)</u>
Fund Balances:					
July 1, 2004	1,510,522	1,510,522	1,510,522	-0-	-0-
Prior period adjustments (Note 10)			(156,537)	-0-	(156,537)
July 1, 2004, as restated	<u>1,510,522</u>	<u>1,510,522</u>	<u>1,353,985</u>	<u>-0-</u>	<u>(156,537)</u>
June 30, 2005	\$ <u>2,661,086</u>	<u>2,265,564</u>	<u>2,062,301</u>	<u>(395,522)</u>	<u>(203,262)</u>

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

STARKVILLE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SCHOOL FOOD SERVICE 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	\$ 453,325	460,126	446,559	6,801	(13,567)
State sources	10,780	10,609	10,609	(171)	-0-
Federal sources	1,334,582	1,459,211	1,406,303	124,629	(52,908)
Total Revenues	<u>1,798,687</u>	<u>1,929,946</u>	<u>1,863,471</u>	<u>131,259</u>	<u>(66,475)</u>
Expenditures:					
Support services	186,798	163,011	163,011	23,787	-0-
Noninstructional services	<u>1,558,889</u>	<u>1,605,492</u>	<u>1,556,756</u>	<u>(46,603)</u>	<u>48,736</u>
Total Expenditures	<u>1,745,687</u>	<u>1,768,503</u>	<u>1,719,767</u>	<u>(22,816)</u>	<u>48,736</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>53,000</u>	<u>161,443</u>	<u>143,704</u>	<u>108,443</u>	<u>(17,739)</u>
Other Financing Sources (Uses):					
Other miscellaneous income	-0-	10,450	10,450	10,450	-0-
Operating transfers in	62,000	50,000	50,000	(12,000)	-0-
Operating transfers out	<u>(115,000)</u>	<u>(155,000)</u>	<u>(155,000)</u>	<u>(40,000)</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>(53,000)</u>	<u>(94,550)</u>	<u>(94,550)</u>	<u>(41,550)</u>	<u>-0-</u>
Net Change in Fund Balances					
	<u>-0-</u>	<u>66,893</u>	<u>49,154</u>	<u>66,893</u>	<u>(17,739)</u>
Fund Balances:					
July 1, 2004	780,655	780,655	780,655	-0-	-0-
Prior period adjustments (Note 10)				-0-	-0-
July 1, 2004, as restated	<u>780,655</u>	<u>780,655</u>	<u>780,655</u>	<u>-0-</u>	<u>-0-</u>
Decrease in reserve for inventory					
			<u>(11,312)</u>		<u>(11,312)</u>
June 30, 2005	<u>\$ 780,655</u>	<u>847,548</u>	<u>818,497</u>	<u>66,893</u>	<u>(29,051)</u>

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

**STARKVILLE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE QUAD 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	\$ 87,500	750,959	750,959	663,459	-0-
Total Revenues	<u>87,500</u>	<u>750,959</u>	<u>750,959</u>	<u>663,459</u>	<u>-0-</u>
Expenditures:					
Instruction	443,294	425,546	425,546	17,748	-0-
Support services	177,077	316,707	316,707	(139,630)	-0-
Total Expenditures	<u>620,371</u>	<u>742,253</u>	<u>742,253</u>	<u>(121,882)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(532,871)</u>	<u>8,706</u>	<u>8,706</u>	<u>541,577</u>	<u>-0-</u>
Other Financing Sources (Uses):					
Transfers In		12,000	12,000	12,000	-0-
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-0-</u>
Net Change in Fund Balances	<u>(532,871)</u>	<u>20,706</u>	<u>20,706</u>	<u>553,577</u>	<u>-0-</u>
Fund Balances:					
July 1, 2004	(44,466)	(44,466)	(44,466)	-0-	-0-
Prior period adjustments (Note 10)			62,287	-0-	62,287
July 1, 2004, as restated	<u>(44,466)</u>	<u>(44,466)</u>	<u>17,821</u>	<u>-0-</u>	<u>62,287</u>
June 30, 2005	\$ <u>(577,337)</u>	<u>(23,760)</u>	<u>38,527</u>	<u>553,577</u>	<u>62,287</u>

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

**STARKVILLE SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

Budgetary Comparison Schedule

Note 1: Basis of Presentation

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

Note 2: Budget amendments and revisions

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

SUPPLEMENTAL INFORMATION

**STARKVILLE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 92,886
Child nutrition cluster:		
School breakfast program	10.553	350,945
National school lunch program	10.555	968,681
Summer food service program for children	10.559	90,836
Total		<u>1,410,462</u>
Fresh fruit and vegetable program	10.582	62,108
Total U.S. Department of Agriculture		<u>1,565,456</u>
U.S. Department of Education		
Passed through Mississippi Board for Community and Junior Colleges:		
Adult education - state grant program	84.002	213,182
Total		<u>213,182</u>
Passed through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	894,955
Vocational education - basic grants to states	84.048	82,271
Safe and drug free schools and communities - state grants	84.186	48,271
Education for homeless children and youth	84.196	27,783
Even start-state educational agencies	84.213	167,382
Fund for the improvement of education	84.215	307,314
Eisenhower professional development state grants	84.281	246,977
Innovative education program strategies	84.298	23,080
Education technology state grants	84.318	24,829
Comprehensive school reform demonstration	84.332	65,658
Transition to teaching	84.350	1,440
Rural education	84.358	171,211
Total		<u>2,061,171</u>
Special education cluster:		
Special education - grants to states	84.027	825,161
Special education - preschool grants	84.173	18,313
Total		<u>843,474</u>
Total passed through Mississippi Department of Education		<u>2,904,645</u>
Total U.S. Department of Education		<u>\$ 3,117,827</u>

STARKVILLE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Health and Human Services:		
Temporary assistance for needy families	93.558	\$ 161,431
Community based child abuse prevention grants	93.590	17,622
Total		<u>179,053</u>
Total U.S. Department of Health and Human Services		<u>179,053</u>
U.S. Department of Interior		
Direct program:		
U.S. fish and wildlife revenue sharing grant	15.XXX	33,655
Total U.S. Department of Interior		<u>33,655</u>
U.S. Department of Justice		
Direct program:		
Part D - Research, evaluation, technical assistance and training	16.542	75,031
Total U.S. Department of Justice		<u>75,031</u>
U.S. Department of Labor		
Passed through Mississippi Department of Education		
Workforce Investment Act-youth activities	17.259	82,297
Total U.S. Department of Labor		<u>82,297</u>
Corporation for National and Community Service		
Passed through Mississippi Department of Education		
Learn and serve America-School and community based programs	94.004	8,568
Total Corporation for National and Community Service		<u>8,568</u>
Federal Communications Commission		
Administered through the Universal Service Administration Company		
The schools and libraries program of the universal service fund	32.XXX	33,916
Total Federal Communications Commission		<u>33,916</u>
U.S. Department of Defense		
Direct program:		
Reserve officers' training corps	12.XXX	76,313
Total Other Federal Assistance		<u>76,313</u>
Total for All Federal Awards		<u><u>5,172,116</u></u>

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

**STARKVILLE 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	\$ 24,722,809	16,531,681	2,315,762	5,875,366
Other	<u>9,263,439</u>	<u>1,974,895</u>	<u>339,388</u>	<u>6,949,156</u>
Total	\$ <u>33,986,248</u>	<u>18,506,576</u>	<u>2,655,150</u>	<u>12,824,522</u>
Total number of students	3,898			
Cost per student	\$ <u>8,719</u>	<u>4,748</u>	<u>681</u>	<u>3,290</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); Support Services - Business (2500s).

Other - includes all expenditure functions not included in Instruction and Administrative.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

Superintendent and School Board
Starkville School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2005, and have issued our report thereon dated January 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all 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, the reportable condition described in the finding referred to above is considered to be a material weakness.

Compliance and Other Matters

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

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

January 25, 2006
Tupelo, Mississippi

Handwritten signature in cursive script that reads "J. E. Vance & Company".

J.E. VANCE & COMPANY, P.A.
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**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Superintendent and School Board
Starkville School District

Compliance

We have audited the compliance of the Starkville School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of 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, Starkville 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 Starkville 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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 05-2.

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. Our 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, we believe the reportable condition described in the finding referred to above is not 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.

January 25, 2006
Tupelo, Mississippi

J. E. Vance & Company

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Starkville School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2005, which collectively comprise Starkville School District's basic financial statements and have issued our report thereon dated January 25, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$74,819 of classroom supply funds carried over from previous years.

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

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

January 25, 2006
Tupelo, Mississippi



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | Yes |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child Nutrition | |
| CFDA #10.553 | |
| CFDA #10.555 | |
| CFDA #10.559 | |

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

Section 1: Summary of Auditor's Results (Continued)

7. Federal programs identified as major programs (continued):

b. Cluster: Special Education

CFDA #84.027

CFDA #84.173

c. Title I - grants to local educational agencies

CFDA #84.010

d. Fund for the improvement of education

CFDA #84.215

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 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? Yes

Section 2: Financial Statement Findings

Material Weaknesses

05-1 Finding

During the course of our audit, we noted that the bank reconciliations are not being prepared in an accurate and timely manner.

Recommendation

We recommend that the district establish procedures to prepare bank reconciliations in an accurate and timely manner (e.g. by the end of the following month).

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

Section 3: Federal Award Findings and Questioned Costs

Reportable Conditions Not Considered to be Material Weaknesses

05-2 Finding

Program: Title I - grants to local educational agencies; 84.010; U.S. Department of Education, passed through the Mississippi Department of Education

Compliance requirement: Cash management

The district requested funds in excess of immediate need from the Mississippi Department of Education. This situation represents a weakness over the controls surrounding the cash management requirement for this federal program.

Recommendation

The district should implement policies and procedures that would help ensure compliance with the federal cash management requirement, which requires the district to request funds in a manner that will allow for the disbursement of those funds in a timely manner.



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AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Starkville 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:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
05-1	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Rob Logan, Business Manager</p> <p>b. Corrective Action Planned</p> <p>I will have the person balancing the accounts give me a copy of the results at the end of the following month.</p> <p>c. Anticipated Completion Date</p> <p>February 13, 2006</p> <p>d. Auditor's note</p> <p>The district did not receive notice of the above finding for the fiscal year ending June 30, 2004, until after the completion of the fiscal year ending June 30, 2005.</p>
05-2.	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Rob Logan, Business Manager</p> <p>b. Corrective Action Planned</p> <p>We will put into place a procedure for those involved with requesting cash for Title I to verify with the business manager if amount requested matches with amount spent for the month minus all Title I funds on hand.</p> <p>c. Anticipated Completion Date</p> <p>February 13, 2006</p>



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AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section __.315(b) of OMB Circular A-133, the Starkville 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>
04-1	The district did not receive notice of the finding related to bank reconciliations for the fiscal year ending June 30, 2004, until after the completion of the fiscal year ending June 30, 2005.
04-2	Report finding. See "Auditee's Corrective Action Plan" finding 05-2 for details.