



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

STONE COUNTY SCHOOL DISTRICT
FINANCIAL AUDITED REPORT
FOR THE YEAR ENDED JUNE 30, 2005

STONE COUNTY SCHOOL DISTRICT

Table of Contents	Page No.
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	1
Management's Discussion and Analysis	3
<u>Financial Statements:</u>	
Exhibit A Statement of Net Assets	11
Exhibit B Statement of Activities	12
Exhibit C Balance Sheet – Governmental Funds	13
Exhibit C-1 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	14
Exhibit D Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	15
Exhibit D-1 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16
Exhibit E Statement of Fiduciary Net Assets	17
Notes to Financial Statements	18
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule General Fund	34
Budgetary Comparison Schedule School Food Service Fund	35
Budgetary Comparison Schedule – Title I – A Fund	36
Budgetary Comparison Schedule Twenty-first Century Learning Centers Fund	37
Budgetary Comparison Schedule Sixteenth Section Interest Fund	38

STONE COUNTY SCHOOL DISTRICT

Table of Contents	Page No.
Notes to the Required Supplementary Information	39
<u>Supplemental Information:</u>	
Schedule of Expenditures of Federal Awards	40
Schedule of Instructional, Administration and Other Expenditures – Governmental Funds	42
<u>Reports on Compliance and Internal Control:</u>	
Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
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	45
Independent Auditors' Report on Compliance with State Laws and Regulations	47
Schedule of Findings and Questioned Costs	48

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING

2500 - 14TH STREET

P. O. BOX 129

GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP

FAYE CAROLE CLEVELAND, CPA
SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

February 8, 2006

Superintendent and School Board
Stone County School District

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2006, on our consideration of the Stone County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 3 through 10 and the Budgetary Comparison Schedules and corresponding notes on pages 34 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stone County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures-Governmental Funds is presented for purposes of additional analysis 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.

Wynlet Ward Trotter # 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased 974,963 which represents less than 12% increase from fiscal year 2004.
- General revenues account for \$15,175,964 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,118,188 or 21% of total revenues.
- The District had \$18,319,189 in expenses; and \$4,118,188 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$15,175,964 were adequate to provide for these programs.
- Among major funds, the General Fund had \$13,982,573 in revenues and \$13,546,155 expenditures. The General Fund's fund balance increased \$453,727 over the prior year, which was primarily due to the limitation of expenditures during the fiscal year in order to increase the fund balance of the General Fund.
- Capital assets, net of accumulated depreciation, experienced a net decrease of \$22,942. The decrease was due primarily to depreciation expense for the year amounting to \$323,794. Asset additions of \$290,577 were added during the year.
- Long-term debt decreased \$631,584. This decrease is due primarily to principal payments made during the fiscal year on existing long-term debt.

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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 Stone County School District's operations.

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

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 12 and 14, 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.

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 Obligations – Agency Funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements..

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

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

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

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 \$8,834,565 as of June 30, 2005.

The District's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$4,066,025 of the District's net assets (46%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital leases, less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently these assets are not available for future spending. \$1,648,982 of the District's net assets (18%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$3,119,558 of the District's net assets (36%) reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	2005 <u>Amount</u>	2004 <u>Amount</u>
Current assets	4,978,878	4,574,148
Capital assets, net	7,680,873	7,703,815
Total assets	<u>12,659,751</u>	<u>12,277,963</u>
Current liabilities	134,569	96,160
Long-term liabilities	3,690,617	4,322,201
Total liabilities	<u>3,825,186</u>	<u>4,418,361</u>
Net assets:		
Invested in capital assets, net of related debt	4,066,025	3,776,365
Restricted	1,648,982	1,418,040
Unrestricted	3,119,558	2,665,197
Total net assets	<u>8,834,565</u>	<u>7,859,602</u>

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

The principal retirement of \$639,650 of long-term debt.

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$19,294,152. The total cost of all programs and services was \$18,319,189. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	2005 Amount	2004 Amount
Revenues:		
Program revenues	4,118,188	3,909,246
General revenues	15,175,964	13,806,146
Total revenues	<u>19,294,152</u>	<u>17,715,392</u>
Expenses:		
Instruction	10,488,158	10,288,486
Support services	5,975,026	5,670,516
Non-instructional	1,276,720	1,058,072
Sixteenth section	407,067	14,405
Interest on long-term debt	172,218	200,345
Total expenses	<u>18,319,189</u>	<u>17,231,824</u>
Prior period adjustments		468,509
Increase in net assets	<u>974,963</u>	<u>952,077</u>

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

- Sixteenth section sources increased 82% primarily due to sale of timber on sixteenth section lands.
- Sixteenth section expenses increased 96% primarily due to the expenses associated with the sale of timber on sixteenth section lands.

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	10,488,158	(8,226,972)	10,288,486	(8,358,874)
Support services	5,975,026	(4,945,312)	5,670,516	(4,785,678)
Non-instructional	1,276,720	(598,263)	1,058,072	22,033
Sixteenth section	407,067	(258,236)	14,405	286
Interest on long-term debt	172,218	(172,218)	200,345	(200,345)
Total expenses	<u>18,319,189</u>	<u>(14,201,001)</u>	<u>17,231,824</u>	<u>(13,322,578)</u>

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

- Total expenses increased from prior year due primarily to the increase in salaries and increase in insurance costs.
- Net cost of governmental activities for fiscal year 2005 in the amount of \$14,201,001 was financed by general revenue, which is made up of primarily property taxes totaling \$3,701,562 and state revenue totaling \$10,220,905.
- Investment earnings accounted for \$54,068 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,560,007, an increase of \$377,402, due primarily to the net change in fund balances. \$4,309,600, or 95% of the fund balance is reported in the general and special revenue fund type on the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be spent on school based activities, unemployment benefits, and forestry improvements. The remaining fund balance of \$250,407, or 5%, is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$453,727, a result of the limitation of expenditures during the fiscal year in order to build up the fund balance. The fund balance of the School Food Service Fund decrease \$23,212 due primarily to the transfer out for indirect costs during the fiscal year. There was no change in fund balance for the Title I-A Basic Fund and the Twenty-first Century Learning Center Fund. The fund balance of the Sixteenth Section Interest Fund increased \$376,672 due primarily to the increase revenues from the sale of timber in the fiscal year. The Other Governmental Funds decreased \$429,785 due to the decrease in fund balance of various non-major governmental funds.

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in ad valorem receipts during the fiscal year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets, net of accumulated depreciation, were \$7,680,873, including land, construction in progress, school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$22,942 from the previous year. Total depreciation expense for the year was \$323,794. Total accumulated depreciation as of June 30, 2005 was \$5,872,532 resulting in total net assets of \$7,680,873.

Debt Administration. At June 30, 2005, the District had \$3,690,617 in general obligation bonds and other long-term debt outstanding, of which \$334,867 is due within one year.

CURRENT ISSUES

- The Stone County School District is financially stable. The District is proud of its community support of the public schools.
- The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting, and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.
- On August 29, 2005, hurricane Katrina hit the Mississippi Gulf Coast causing considerable damage to the Stone County School District.

Damage to the infrastructure and property along the Gulf Coast is expected to impact ad valorem taxes for the next few years. Although the determination of the actual loss in income to the School District is speculative at best, management has estimated that the 2005–2006 school year will have a reduction in income of approximately \$4.5 million. Management of the District anticipates its insurance coverage to cover the majority of its loss.

As of the date of this report, United States Congress has passed a bill for approval to send aid monies to the affected School Districts to help in the loss of revenues and maintenance and repair of damaged properties.

STONE COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Stone County School District , 214 Critz Street, Wiggins, MS 39577.

FINANCIAL STATEMENTS

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

Exhibit A

		Primary Government Governmental Activities
Assets		
Cash and cash equivalents	\$	4,079,760
Due from other governments		428,227
Deferred charges		289,407
Inventories		14,994
Restricted assets		166,490
Capital assets, net		7,680,873
Total Assets	\$	12,659,751
Liabilities		
Accounts payable and accrued liabilities	\$	129,464
Interest payable on long-term liabilities		5,105
Long-term liabilities, due within one year		
Capital related liabilities		334,867
Long-term liabilities, due beyond one year		
Capital related liabilities		3,279,981
Non-capital related liabilities		75,769
Total Liabilities	\$	3,825,186
Net Assets		
Investment in capital assets, net of related debt	\$	4,066,025
Restricted net assets:		
Expendable:		
School based activities		937,073
Debt service		134,714
Forestry improvements		149,700
Unemployment benefits		47,500
Non-expendable:		
Sixteenth section		70,896
Unrestricted		3,428,657
Total Net Assets	\$	8,834,565

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ (10,488,158)	326,641	1,934,545		(8,226,972)
Support services	(5,975,026)		1,029,714		(4,945,312)
Non-instructional	(1,276,720)	399,146	199,311	80,000	(598,263)
Sixteenth section	(407,067)	148,831			(258,236)
Interest on long-term liabilities	(172,218)				(172,218)
Total governmental activities	\$ (18,319,189)	874,618	3,163,570	80,000	(14,201,001)
General Revenues:					
Taxes:					
					3,358,988
					342,574
Unrestricted grants and contributions:					
					10,220,905
					188,066
					54,068
					935,863
					75,500
					<u>15,175,964</u>
					974,963
					<u>7,859,602</u>
					<u>\$ 8,834,565</u>

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

Stone County School District
Balance Sheet - Governmental Funds
June 30, 2005

Exhibit C

	Major Funds							Total Governmental Funds
	General Fund	School Food Service Fund	Title 1-A Basic Fund	Twenty-first Century Learning Centers Fund	Sixteenth Section Interest Fund	Other Governmental Funds		
ASSETS								
Cash and cash equivalents	\$ 2,882,045	152,017	22	3	644,501	472,307	4,150,895	
Investments						95,355	95,355	
Due from other governments	212,303	80	55,178	42,242	115	118,309	428,227	
Due from other funds	172,719	6,103					178,822	
Inventories and prepaid items		14,994					14,994	
Total Assets	\$ 3,267,067	173,194	55,200	42,245	644,616	685,971	4,868,293	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities	\$ 71,740					57,724	129,464	
Due to other funds			55,200	42,245		81,377	178,822	
Total Liabilities	71,740		55,200	42,245		139,101	308,286	
Fund Balances:								
Reserved for:		14,994					14,994	
Inventory								
Debt Service						139,819	139,819	
Unreserved:								
Undesignated, reported in:								
General Fund	3,195,327						3,195,327	
Special revenue		158,200			644,616	311,457	1,114,273	
Permanent Funds						95,594	95,594	
Total Fund Balances	3,195,327	173,194			644,616	546,870	4,560,007	
Total Liabilities and Fund Balances	\$ 3,267,067	173,194	55,200	42,245	644,616	685,971	4,868,293	

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,560,007
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this funds financial statement, but are reported in the governmental activities of the Statement of Net Assets.	7,680,873
Interest accrued on long term debt is not paid or due in the current period and are therefore not reported as a liability in the fund financial statements, but are reported in the government activities of the Statement of Net Assets.	(5,105)
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.	(3,690,617)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	<u>289,407</u>
 Net Assets of Governmental Activities	 <u>\$ 8,834,565</u>

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

	Major Funds							Total Governmental Funds
	General Fund	Food Service Fund	Title 1-A Basic Fund	Twenty-first Century Learning Centers Fund	Sixteenth Section Interest Fund	Other Governmental Funds		
Revenues:								
Local sources	\$ 3,713,040	426,829	164	49,643		350,133	4,539,809	
State sources	10,046,986	7,213				794,556	10,848,755	
Federal sources	222,547	825,035	597,128	234,859	968,496	924,219	2,803,788	
Sixteenth section			597,292	284,502	968,496	115,304	1,083,800	
Total Revenues	13,982,573	1,259,077	597,292	284,502	968,496	2,184,212	19,276,152	
Expenditures:								
Instruction	8,488,059		337,854			1,481,662	10,307,575	
Support services	4,822,231	137,318	235,360	274,082		505,422	5,974,413	
Noninstructional services		1,076,563	2,165		377,374	129,666	1,208,394	
Sixteenth section						29,693	407,067	
Facilities acquisition and construction	144,279					51,097	195,376	
Debt service:								
Principal	78,161	16,285				536,504	630,950	
Interest	13,425					159,427	172,852	
Total Expenditures	13,546,155	1,230,166	575,379	274,082	377,374	2,893,471	18,896,627	
Excess (Deficiency) of Revenues Over Expenditures	436,418	28,911	21,913	10,420	591,122	(709,259)	379,525	
Other Financing Sources (Uses):								
Operating transfers in	754,260				3,597	335,140	1,092,997	
Operating transfers out	(718,951)	(50,000)	(21,913)	(10,420)	(218,047)	(73,666)	(1,092,997)	
Payments held by escrow agent						18,000	18,000	
Payments to QZAB debt escrow	(18,000)						(18,000)	
Total Other Financing Sources (Uses)	17,309	(50,000)	(21,913)	(10,420)	(214,450)	279,474	0	
Net changes in fund balances	453,727	(21,089)	0	0	376,672	(429,785)	379,525	
Fund Balance:								
July 1, 2004	2,741,600	196,406			267,944	976,655	4,182,605	
Increase (decrease) in reserve for inventory		(2,123)					(2,123)	
June 30, 2005	\$ 3,195,327	173,194	0	0	644,616	546,870	4,560,007	

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

Stone County School District
 Reconciliation of the Governmental Funds Statement of
 Revenues, Expenditures, and Changes
 in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 379,525
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$290,577 and the depreciation expense amounted to \$323,794.	(33,217)
Payment of principal on long-term debt liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	630,950
Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	17,860
Issuance cost for long-term liabilities is reported as an expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, but is deferred and amortized over the life of the debt on the Statement of Activities	(28,941)
Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	10,275
Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(2,123)
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	634
Change in net assets of governmental activities	\$ 974,963

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

NOTES TO THE FINANCIAL STATEMENTS

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the 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 and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and 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.

Food Service Fund – This fund accounts for all of the school's financial resources related to child nutrition and food service programs.

Chapter 1 – Title I - A Fund – This fund is used to account for financial resources received and spent under the federal Title I grant program.

Twenty-first Century Learning Centers Fund – This fund is used to account for financial resources received and spent under the Twenty-first Century Learning Centers grant program.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Sixteenth Section Interest Fund – This fund is used to account for the expendable revenues and expenditures associated with sixteenth section lands.

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 a measure of results of operations.

D. Account Classifications.

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

E. Encumbrances.

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

Capital 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.

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

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

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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.

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires 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.

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

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

Reserved for 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.

M. 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.

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

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

(3) Cash and Cash Equivalents and Investments

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 was reported in the governmental funds and fiduciary funds was \$4,150,656 and \$693,055, respectively. The carrying amounts of deposits reported in the government-wide statements was: cash and cash equivalents \$4,079,760 and restricted assets, \$71,135. The restricted assets represents the cash balance and investment balance of the Sixteenth Principal Funds (Permanent Funds) of \$71,135 and \$95,355 which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$5,827,214.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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 that 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, the district's bank balance] was not exposed to custodial credit risk.

Investments.

As of June 30, 2005 the District had the following restricted investments (as explained in the previous paragraphs):

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury bills	less than 1	95,355	AA
Subtotal		<u>95,355</u>	
Total Investments		<u><u>95,355</u></u>	

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

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district investments were all issued and explicitly guaranteed by the U.S. government.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General Fund	\$ 172,719	
Food Service Fund	6,103	
Title I - A Fund		55,200
Twenty-first Century Learning Center Fund		42,245
Other Governmental Funds		81,377
Total Funds	\$ 178,822	178,822

Due From/Due To Other Funds represent short term loans made between major funds and nonmajor to cover federal funds not received prior to year end for encumbrances which are due to the District Maintenance account.

B. Transfers In/Out:

	Transfers In	Transfers Out
Major funds:		
General Fund	\$ 754,260	718,951
Food Service Fund		50,000
Title I - A Fund		21,913
Twenty-first Century Learning Center Fund		10,420
Sixteenth Section Interest Fund	3,597	218,047
Other Governmental Funds	335,140	73,666
Total Funds	\$ 1,092,997	1,092,997

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

(5) Capital Assets.

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

	Balance 7-1-2004	Additions	Retiremen ts	Balance 6-30-2005
Non-depreciable capital assets:				
Land	\$ 259,726	78,253		337,979
Construction in progress		63,913		63,913
Total non-depreciable capital assets	<u>259,726</u>	<u>142,166</u>		<u>401,892</u>
Depreciable capital assets:				
Buildings	9,763,976	53,211		9,817,187
Improvements other than buildings	563,950			563,950
Mobile equipment	2,027,483	95,200	14,683	2,108,000
Furniture and equipment	351,411		48,010	303,401
Leased property under capital leases	358,975			358,975
Total depreciable capital assets	<u>13,065,795</u>	<u>148,411</u>	<u>62,693</u>	<u>13,151,513</u>
Less accumulated depreciation for:				
Buildings	3,420,991	152,669		3,573,660
Improvements other than buildings	163,172	22,558		185,730
Mobile equipment	1,430,091	81,118	17,164	1,494,045
Furniture and equipment	302,836	16,680	55,804	263,712
Leased property under capital leases	304,616	50,769		355,385
Total accumulated depreciation	<u>5,621,706</u>	<u>323,794</u>	<u>72,968</u>	<u>5,872,532</u>
Total depreciable capital assets, net	<u>7,444,089</u>	<u>(175,383)</u>	<u>(10,275)</u>	<u>7,278,981</u>
Governmental activities capital assets, net	<u>\$ 7,703,815</u>	<u>(33,217)</u>	<u>(10,275)</u>	<u>7,680,873</u>

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Depreciation expense was charged to the following governmental functions:

		<u>Amount</u>
Instruction	\$	164,397
Support Services		111,194
Non-instructional		48,203
Total depreciation expense	\$	<u>323,794</u>

(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	\$	3,445,000		245,000	3,200,000	255,000
B. Obligations under capital leases		303,336		303,336		
C. Obligations under energy efficiency lease		130,727		22,388	108,339	23,358
D. Qualified zone academy bonds		250,000			250,000	
E. Other loans payable		116,735		60,226	56,509	56,509
E. Compensated absences payable		76,403		634	75,769	
Total	\$	<u>4,322,201</u>		<u>631,584</u>	<u>3,690,617</u>	<u>334,867</u>

A. General obligation bonds payable.

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

Description	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation bonds Series 2002	varies	10-1-02	10-1-08	\$ 3,365,000	3,200,000
Total				<u>\$ 3,365,000</u>	<u>3,200,000</u>

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

General Obligation Bonds FYE June 30	Principal	Interest	Total
2006	255,000	111,332	366,332
2007	265,000	103,300	368,300
2008	275,000	96,013	371,013
2009	280,000	87,762	367,762
2010	290,000	78,803	368,803
2011 - 2015	1,635,000	230,527	1,865,527
2016 - 2019	200,000	8,000	208,000
Total	\$ 3,200,000	715,737	3,915,737

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 1, 2004. This debt will be retired from the debt service fund.

B. Limited obligation bonds payable.

Limited obligation notes are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds were retired as of June 30, 2005.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	5%	06-19-01	08-03-04	1,178,276	-0-

The state aid capital improvement notes 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 notes are not included in the computation of the debt limit percentage. This debt was retired from the debt service fund.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

C. 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 and Maintenance Charges	Total
2006	23,358	4,203	27,561
2007	24,370	3,191	27,561
2008	25,427	2,134	27,561
2009	26,529	1,032	27,561
2010	8,655	107	8,762
Total	\$ 108,339	10,667	119,006

An energy efficiency lease agreement dated December 12, 2001, was executed by and between the district, the lessee, and Hancock Bank, the lessor.

The agreement authorized the borrowing of \$215,000 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 the food service fund and not exceed ten (10) years.

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

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

This debt will be retired from the General Fund.

D. Qualified zone academy bonds payable.

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	5%	06-01-01	6-01-11	250,000	250,000
			Total		<u>250,000</u>

This debt will be retired from the district maintenance fund.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

E. Other loans payable

The School District has issued debt instruments granted under the authority of Section 37-59-101 through 37-59-115, Miss. Code Ann. (1972).

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Other loans payable	5.81%	12-22-95	12-22-05	500,000	56,509
			Total		<u>56,509</u>

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

	Other Loans Payable	Principal	Interest	Total
2006		56,509	3,808	60,317
Total		\$ 56,509	3,808	60,317

F. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

June 30, 2005, 2004 and 2003 were \$1,054,326, \$970,291, and \$882,035, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising 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	\$ 80,677
2007	48,359
2008	48,242
2009	4,142
2010	4,142
2011-2015	13,667
2016-2020	5,119
2021-2025	4,301
Total	<u>\$ 208,649</u>

(9) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

claim up to \$300,000. For a claim exceeding \$300,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Prior Year Defeasance of Debt.

In prior years, the Stone County 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, \$2,990,000 of bonds outstanding are defeased.

(11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Desoto Land and Timber, has entered into such an arrangement dated June 1, 2001.

Desoto Land and Timber will contribute services totaling \$1,400 per year for four years and teach students of the school district various topics related to land and timber management and environmental management. Desoto will also contribute cash of \$1,830 per year for two years. Bank of Wiggins will contribute services totaling \$4,000 per year for two years and \$2,000 in the third year. Foundation for Better Education will contribute cash of \$5,000.

(12) Subsequent Event.

On August 29, 2005, Hurricane Katrina passed through the State of Mississippi. Stone County School District suffered significant damage to its facilities. The district estimates the amount of damages to its facilities was approximately \$4.5 million. The district, however, anticipates its insurance coverage to cover the majority of its loss.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Local sources	\$ 3,639,185	3,712,145	3,713,040	72,960	895
State sources	9,860,491	10,046,986	10,046,986	186,495	0
Federal sources	100,504	222,547	222,547	122,043	0
Total Revenues	<u>13,600,180</u>	<u>13,981,678</u>	<u>13,982,573</u>	<u>381,498</u>	<u>895</u>
Expenditures:					
Instruction	8,804,005	8,507,539	8,488,059	296,466	19,480
Support services	4,817,444	4,824,507	4,822,231	(7,063)	2,276
Facilities acquisition and construction	170,000	142,004	144,279	27,996	(2,275)
Debt service:					
Principal	86,000	78,795	78,161	7,205	634
Interest	13,100	12,290	13,425	810	(1,135)
Total Expenditures	<u>13,890,549</u>	<u>13,565,135</u>	<u>13,546,155</u>	<u>325,414</u>	<u>18,980</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(290,369)</u>	<u>416,543</u>	<u>436,418</u>	<u>706,912</u>	<u>19,875</u>
Other Financing Sources (Uses):					
Operating transfers in	737,437	757,856	754,260	20,419	(3,596)
Operating transfers out	(559,540)	(736,951)	(718,951)	(177,411)	18,000
Payments to QZAB debt escrow			(18,000)		(18,000)
Total Other Financing Sources (Uses)	<u>177,897</u>	<u>20,905</u>	<u>17,309</u>	<u>(156,992)</u>	<u>(3,596)</u>
Net Change in Fund Balances	<u>(112,472)</u>	<u>437,448</u>	<u>453,727</u>	<u>549,920</u>	<u>16,279</u>
Fund Balances:					
July 1, 2004	<u>1,721,359</u>	<u>2,740,379</u>	<u>2,741,600</u>	<u>1,019,020</u>	<u>1,221</u>
June 30, 2005	<u>\$ 1,608,887</u>	<u>3,177,827</u>	<u>3,195,327</u>	<u>1,568,940</u>	<u>17,500</u>

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

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
				Original to Final	Final to Actual
	Original	Final			
Revenues:					
Local sources	488,954	426,829	426,829	(62,125)	0
State sources	7,000	7,213	7,213	213	0
Federal sources	769,158	825,035	825,035	55,877	0
Total Revenues	<u>1,265,112</u>	<u>1,259,077</u>	<u>1,259,077</u>	<u>(6,035)</u>	<u>0</u>
Expenditures:					
Support services	137,638	139,441	137,318	(1,803)	(2,123)
Noninstructional services	1,069,641	1,076,563	1,076,563	(6,922)	0
Debt Service - Principal	22,387	16,285	16,285	6,102	0
Total Expenditures	<u>1,229,666</u>	<u>1,232,289</u>	<u>1,230,166</u>	<u>(2,623)</u>	<u>(2,123)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>35,446</u>	<u>26,788</u>	<u>28,911</u>	<u>(8,658)</u>	<u>2,123</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(14,554)</u>	<u>(23,212)</u>	<u>(21,089)</u>	<u>(8,658)</u>	<u>2,123</u>
Fund Balances:					
July 1, 2004	<u>185,000</u>	<u>196,406</u>	<u>196,406</u>	<u>11,406</u>	<u>0</u>
Increase (Decrease) in reserve for inventory			<u>(2,123)</u>	<u>0</u>	<u>(2,123)</u>
June 30, 2005	<u>\$ 170,446</u>	<u>173,194</u>	<u>173,194</u>	<u>2,748</u>	<u>0</u>

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

Stone County School District
 Budgetary Comparison Schedule Title I - A Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
				Original to Final	Final to Actual
	Original	Final			
Revenues:					
Local sources	\$	164	164	164	0
Federal sources	715,252	597,128	597,128	(118,124)	0
Total Revenues	715,252	597,292	597,292	(117,960)	0
Expenditures:					
Instruction	451,584	338,037	337,854	113,547	183
Support services	245,180	235,360	235,360	9,820	0
Noninstructional services	5,363	2,165	2,165	3,198	0
Total Expenditures	702,127	575,562	575,379	126,565	183
Excess (Deficiency) of Revenues Over Expenditures	13,125	21,730	21,913	8,605	183
Other Financing Sources (Uses):					
Operating transfers out	(13,125)	(21,913)	(21,913)	(8,788)	0
Total Other Financing Sources (Uses)	(13,125)	(21,913)	(21,913)	(8,788)	0
Net Change in Fund Balances	0	(183)	0	(183)	183
Fund Balances:					
July 1, 2004			0	0	0
June 30, 2005	\$ 0	(183)	0	(183)	183

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

Stone County School District
 Budgetary Comparison Schedule
 Twenty-First Century Learning Center
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	49,643	49,643	49,643	0
Federal sources	243,161	234,859	234,859	(8,302)	0
Total Revenues	243,161	284,502	284,502	41,341	0
Expenditures:					
Support services	225,086	274,082	274,082	(48,996)	0
Total Expenditures	225,086	274,082	274,082	(48,996)	0
Excess (Deficiency) of Revenues Over Expenditures	18,075	10,420	10,420	(7,655)	0
Other Financing Sources (Uses):					
Operating transfers out	(7,324)	(10,420)	(10,420)		
Total Other Financing Sources (Uses)	(7,324)	(10,420)	(10,420)	(3,096)	0
Net Change in Fund Balances	10,751	0	0	(10,751)	0
Fund Balances:					
July 1, 2004			0	0	0
June 30, 2005	\$ 10,751	0	0	(10,751)	0

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

STONE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

(3) Individual Fund Disclosures.

The Sixteenth Section Interest Fund has an excess of expenditures over budget in the amount of \$202,374 primarily due to increased pay outs for timber sales in excess of budgeted amounts. The fund is in violation of state law. However, the school district has no liability associated with this violation.

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	\$ 81,410
Child nutrition cluster:		
School breakfast program	10.553	177,178
National school lunch program	10.555	550,367
Summer food service program for children	10.559	12,326
Total child nutrition cluster		<u>739,871</u>
Child and adult care food program	10.558	16,080
Total U.S. Department of Agriculture		<u>837,361</u>
 <u>U.S. Department of Education</u>		
Direct Program:		
Twenty-first century community learning centers	84.287	234,859
Total		<u>234,859</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	597,128
Vocational education - basic grants to states	84.048	32,122
Safe and drug-free schools and communities - state grants	84.186	17,299
State grants for innovative programs	84.298	14,471
Educational technology state grants	84.318	33,708
Title I accountability grants	84.348	31,506
Improving teacher quality – state grants	84.367	189,599
Total		<u>915,833</u>
Special education cluster:		
Special education - grants to states	84.027	569,668
Special education - preschool grants	84.173	23,519
Total		<u>593,187</u>
Total passed-through Mississippi Department of Education		<u>1,509,020</u>
Total U.S. Department of Education		<u>1,743,879</u>
Total for All Federal Awards		<u>\$ 2,581,240</u>

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

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

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

Expenditures	Total	Instruction	Administrative	Other
Salaries and fringe benefits	\$ 13,888,958	9,421,762	1,534,804	2,932,392
Other	5,007,669	885,813	164,269	3,957,587
Total	\$ 18,896,627	10,307,575	1,699,073	6,889,979
Total number of students	<u>2,730</u>			
Cost per student	\$ <u>6,922</u>	<u>3,776</u>	<u>622</u>	<u>2,524</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 or administrative.

* Enrollment numbers for month 9 of the school year.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING
2500 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP
FAYE CAROLE CLEVELAND, CPA
SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

February 8, 2006

Superintendent and School Board
Stone County School District

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County 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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental 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.

Wright Wood White & Keef

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING
2500 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP

FAYE CAROLE CLEVELAND, CPA
SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

February 8, 2006

Superintendent and School Board
Stone County School District

Compliance

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

Internal Control Over Compliance

The management of the Stone County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Walter Wood with & Seal

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

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING
2500 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP

FAYE CAROLE CLEVELAND, CPA
SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

February 8, 2006

Superintendent and School Board
Stone County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Stone County School District as of and for the year ended June 30, 2004, and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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 \$48,465 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.

Wright Ward Hatten & Guel

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's 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? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster | |
| | CFDA # 10.553 | |
| | CFDA # 10.555 | |
| | CFDA # 10.559 | |
| b. | Title I – Grants to local agencies | |
| | 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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