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**TISHOMINGO COUNTY SPECIAL MUNICIPAL
SEPARATE SCHOOL DISTRICT**

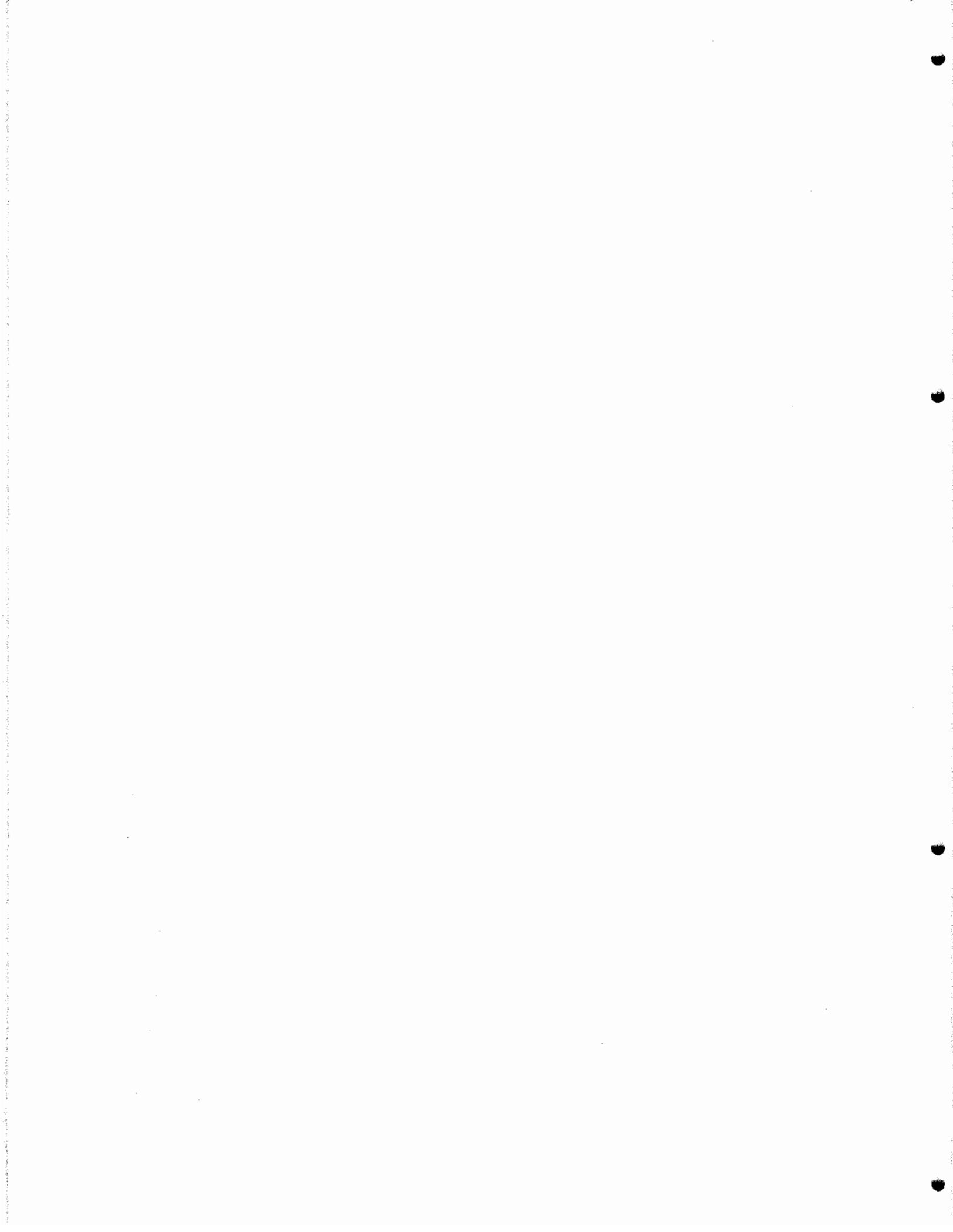
AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005



**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
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JUNE 30, 2005**

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

Superintendent and School Board
Tishomingo County Special Municipal Separate School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Tishomingo County Special Municipal Separate School District at 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 October 27, 2005, on our consideration of the Tishomingo County Special Municipal Separate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 2 through 7 and the Budgetary Comparison Schedules and corresponding notes on pages 27 through 28 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tishomingo County Special Municipal Separate 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Brawner, VanStory & Co. P.A.
October 27, 2005
Booneville, Mississippi

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Tishomingo County Special Municipal Separate 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

• (Program revenues are those which are received in the form of charges for services, grants and contributions and are applied to specific programs.)

<u>General Funds</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>
2004	\$ 17,496,026	\$ 17,652,119	\$ 10,394,299
2005	18,143,479	17,051,095	11,083,950
Net Change	<u>\$ 647,453</u>	<u>\$ (601,024)</u>	<u>\$ 689,651</u>

•The fund increase from the prior year was a result of increases in local and state revenues and a reduction in long term debt

<u>Capital Assets, net of</u>	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
Accumulated depreciation	\$ 17,198,736	\$ 17,568,317	\$ 369,581

The decrease in net value of capital assets resulted mainly from the depreciation of capital assets.

<u>Long-term Debt</u>	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
	\$ 1,603,288	\$ 3,982,302	\$ 2,379,014

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.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2005**

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 net 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 8-9 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 11 and 13, 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 10 and 12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 14.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
FOR THE YEAR ENDED JUNE 30, 2005**

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 beginning on page 15 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 27-28 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 29 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 \$28,165,245 as of June 30, 2005.

By far the largest portion of the District's net assets (57%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current assets	\$ 16,574,218	\$ 13,077,036	27%
Capital assets, net	17,568,317	17,198,736	2%
Total assets	\$ 34,142,535	\$ 30,275,772	13%
Current liabilities	2,324,854	888,639	162%
Long-term debt	3,652,436	1,362,585	168%
Total liabilities	\$ 5,977,290	\$ 2,251,224	166%
Net assets:			
Capital assets, net	\$ 14,426,282	\$ 15,854,875	-9%
Restricted	3,495,280	4,986,208	-30%
Unrestricted	10,243,683	7,183,465	43%
Total net assets	\$ 28,165,245	\$ 28,024,548	1%

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

- Increase in long term debt: \$2,379,014
- Additions to capital assets and improvements: \$2,098,379

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
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 \$23,160,091. The total cost of all programs and services was \$21,887,817. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005, compared to 2004.

	2005	2004	% Change
Revenues			
Program Revenues	\$ 4,214,665	\$ 4,627,077	-9%
General Revenues	18,945,426	17,422,020	9%
Total Revenues	23,160,091	22,049,097	5%
Expenses			
Instruction	\$ 12,768,748	\$ 12,148,265	5%
Support Services	7,150,117	6,211,408	15%
Non-instructional	1,845,606	1,589,509	16%
Interest on Long-Term Liabilities	123,346	58,081	112%
Total Expenses	\$ 21,887,817	\$ 20,007,263	9%
Change in Net Assets:	\$ 1,272,274	\$ 2,041,834	-38%

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

Net (Expense) Revenue

	2005	2004	% Change
Instruction	\$ (10,324,266)	\$ (9,380,148)	10%
Support Services	(7,000,038)	(6,107,570)	15%
Non-Instructional	(225,502)	165,613	271%
Interest on Long-Term Liabilities	(123,346)	(58,081)	112%
Total Expenses	\$ (17,673,152)	\$ (15,380,186)	16%
Net Cost of Activities	\$ (17,673,152)	\$ 15,380,186	16%
1) property taxes of	3,950,546	3,974,306	-1%
2) state revenue of	13,640,807	12,087,028	13%
3) federal revenue of	732,440	706,413	6%
Investment earnings of	579,073	550,076	5%

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.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2005**

The financial performance of the District as a whole is reflected in its governmental funds. The following table reflects fund balances for the fiscal year ending June 30, 2005 compared to fiscal year 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Unreserved/undesignated	\$ 13,468,288	\$ 7,442,892	81%
Reserved or designated	1,185,844	4,991,637	-76%
Total Fund Balance	\$ 14,654,132	\$ 12,434,529	18%
General Funds	\$ 11,083,950	\$ 10,394,299	7%
Other Governmental Fund	3,570,182	2,040,230	75%
Total	\$ 14,654,132	\$ 12,434,529	18%

Unreserved and undesignated funds are funds which are available for spending at the District's discretion. Reserved or designated funds are those which are committed for debt service and capital improvements. The General Fund is the principal operating fund of the District.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compare to the District's actual revenue and expenditure amounts for the General Fund and other major funds is provided in this report as required supplementary information. The budget was amended primarily for operating transfers out for an increase of \$2,000,000 to Local Improvements general fund account. This report is located on pages 27-28.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The table below summarizes and compares capital assets and accumulated depreciation for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Total Capital Assets	\$ 26,124,464	\$ 25,437,108	3%
Accumulated Depreciation	8,556,147	8,238,372	4%
Total Net Assets	\$ 17,568,317	\$ 17,198,736	2%

Additional information of the District's capital assets can be found in the Notes 1 and 5 of this report.

Debt Administration. The table below summarizes and compares long-term debt for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Total long-term debt	\$ 3,982,302	\$ 1,603,288	148%

Additional information of the District's long-term debt can be found in the Notes 1 and 6 of this report.

CURRENT ISSUES

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

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2005**

The District is now committed to financial excellence. The millage has not increased over the past two years despite funding cuts and additional mandated expenditures by the State of Mississippi. In addition, the district system of financial planning, budgeting and internal financial controls are now well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will remain constant.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, you may contact:

Office of the Superintendent
Tishomingo County School District
1620 Paul Edmondson Drive
Iuka, MS 38852

Tishomingo County Special Municipal Separate School District
Statement of Net Assets
June 30, 2005

Exhibit A

Primary Government
Governmental
Activities

ASSETS

Cash and Cash Equivalents (Note 3)	\$	15,000,936
Cash with Fiscal Agents (Note 3)		234,107
Investments (Note 3)		809,949
Due from Other Governments		499,598
Inventories and Prepaid Items		28,483
Restricted Assets		1,145
Capital Assets (Note 4)		17,568,317

Total Assets

34,142,535

LIABILITIES

Accounts Payable and Accrued Liabilities		1,920,086
Interest Payable on Long Term Debt		74,902
Long term Liabilities (due within one year)(Note 6)		
Capital Related Liabilities		268,675
Non-Capital Liabilities		61,191
Long term Liabilities (due beyond one year)(Note 6)		
Capital Related Liabilities		2,873,360
Non-Capital Liabilities		779,076

Total Liabilities

5,977,290

NET ASSETS

Invested in Capital Assets, Net of Related Debt		14,426,282
Restricted Net Assets		
Expendable:		
Inventory		28,483
School-based Activities		900,732
Retirement of Long Term Debt		1,007,611
Capital Improvements		1,483,606
Unemployment Benefits		73,703
Non-Expendable:		
Other		1,145
Unrestricted		10,243,683

Total Net Assets

\$ 28,165,245

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

Exhibit B

**Tishomingo County Special Municipal Separate 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	Primary Governmental Activities
Governmental Activities				
Instruction	\$ 12,768,748	684,905	1,759,577	(10,324,266)
Support services	7,150,117	-	150,079	(7,000,038)
Noninstructional services	1,845,606	489,283	1,130,821	(225,502)
Interest on long-term liabilities	123,346	-	-	(123,346)
Total Governmental Activities	<u>21,887,817</u>	<u>1,174,188</u>	<u>3,040,477</u>	<u>(17,673,152)</u>

General Revenues:

Taxes:

General purpose levies 3,621,473

Debt purpose levies 329,073

Unrestricted grants and contributions:

State 13,640,807

Federal 732,440

Unrestricted investment earnings 579,073

Other 42,560

Total General Revenues 18,945,426

Change in Net Assets 1,272,274

Net Assets - Beginning 28,024,548

Prior Period Adjustments (Note 10) (1,131,577)

Net Assets-Beginning, as Restated 26,892,971

Net Assets - Ending \$ 28,165,245

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

**Tishomingo County Special Municipal Separate School District
Balance Sheet - Governmental Funds
June 30, 2005**

	Major Funds			Total (Memorandum Only)
	General Funds	Building Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents (Note 3)	\$ 10,843,767	1,916,468	2,240,701	15,000,936
Cash with fiscal agent (Note 3)	234,107	-	-	234,107
Investments (Note 3)	809,949	-	-	809,949
Due from other governments	198,671	-	300,927	499,598
Due from other funds (Note 4)	122,519	-	13,169	135,688
Inventories and prepaid items	-	-	28,483	28,483
Restricted Assets	-	-	1,145	1,145
Total Assets	12,209,013	1,916,468	2,584,425	16,709,906
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued liabilities	1,125,063	508,456	286,567	1,920,086
Due to other funds (Note 4)	-	-	135,688	135,688
Total Liabilities	1,125,063	508,456	422,255	2,055,774
Fund Balances				
Reserved for:				
Inventory	-	-	28,483	28,483
Retirement of long-term debt	-	-	1,082,513	1,082,513
Unemployment benefits	-	-	73,703	73,703
Permanent funds	-	-	1,145	1,145
Unreserved and Undesignated:				
General funds	6,915,628	-	-	6,915,628
Special revenue	-	-	900,732	900,732
Capital projects	4,168,322	1,408,012	75,594	5,651,928
Total Fund Balances	11,083,950	1,408,012	2,162,170	14,654,132
Total Liabilities and Fund Balances	\$ 12,209,013	1,916,468	2,584,425	16,709,906

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

Tishomingo County Special Municipal Separate School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

	<u>Amount</u>
Total Fund Balance-Governmental Funds	\$ 14,654,132
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,556,147 (Note 5)	17,568,317
2 Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. (Note 6)	(3,982,302)
3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds.	<u>(74,902)</u>
Total Net Assets - Governmental Activities	<u>\$ 28,165,245</u>

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

**Tishomingo County Special Municipal Separate School District
Statement of Revenue, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2005**

	<u>Major Funds</u>			Total (Memorandum Only)
	General Funds	Building Fund	Other Governmental Funds	
Revenues				
Local sources	\$ 4,773,950	66,648	888,322	5,728,920
State sources	12,613,088	-	1,101,067	13,714,155
Federal sources	756,441	-	2,943,129	3,699,570
Total Revenues	<u>18,143,479</u>	<u>66,648</u>	<u>4,932,518</u>	<u>23,142,645</u>
Expenditures				
Instruction	10,728,821	-	2,336,507	13,065,328
Support services	5,787,621	35,062	1,124,388	6,947,071
Noninstructional services	197,674	-	1,617,519	1,815,193
Facilities acquisition and construction	187,818	1,223,574	-	1,411,392
Debt Service:				
Principal	102,529	-	138,150	240,679
Interest	46,632	-	7,241	53,873
Total Expenditures	<u>17,051,095</u>	<u>1,258,636</u>	<u>5,223,805</u>	<u>23,533,536</u>
Excess of Revenues Over (Under) Expenditures	<u>1,092,384</u>	<u>(1,191,988)</u>	<u>(291,287)</u>	<u>(390,891)</u>
Other Financing Sources (Uses)				
Proceeds of Capital Debt	-	2,600,000	-	2,600,000
Insurance loss recoveries	6,360	-	-	6,360
Operating transfers in	-	-	420,182	420,182
Operating transfers out	(420,182)	-	-	(420,182)
Sale of Capital Assets	11,089	-	-	11,089
Total Other Financing Sources (Uses)	<u>(402,733)</u>	<u>2,600,000</u>	<u>420,182</u>	<u>2,617,449</u>
Excess (deficiency) of revenues over expenditures and other sources (Uses)	<u>689,651</u>	<u>1,408,012</u>	<u>128,895</u>	<u>2,226,558</u>
Fund Balances				
June 30, 2004	10,394,299	-	2,040,230	12,434,529
Decrease in reserve for inventory	-	-	(6,955)	(6,955)
	<u>10,394,299</u>	<u>-</u>	<u>2,033,275</u>	<u>12,427,574</u>
Fund Balance June 30, 2005	<u>\$ 11,083,950</u>	<u>1,408,012</u>	<u>2,162,170</u>	<u>14,654,132</u>

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

**Tishomingo County Special Municipal Separate 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**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 2,226,558
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$2,098,379 and the depreciation expense amounted to \$540,570. (Note 5)	1,527,809
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	240,679
3. Proceeds from debt are recorded as revenue in the governmental funds, but recorded as a liability in the statement of net assets.	(2,600,000)
4. Increase in accrued interest is reported as an adjustment to interest expense in the statement of activities.	(69,473)
5. Increase in compensated absences is reported as an adjustment to support services and noninstructional services.	(19,693)
6. Disposal of capital assets are reported as an adjustment to support.	(26,651)
7. Decrease in inventory is reported as an adjustment to fund balances in governmental funds but noninstructional expenditures are increased in the statement of activity.	<u>(6,955)</u>
Change in Net Assets	<u>\$ 1,272,274</u>

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

Exhibit E

**Tishomingo County Special Municipal Separate School District
Statement of Fiduciary Assets And Liabilities
June 30, 2005**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 73,139
TOTAL ASSETS	<u>\$ 73,139</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,792
Due to student clubs	71,347
TOTAL LIABILITIES	<u>\$ 73,139</u>

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

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE 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 of which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 service offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund 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.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

Building Fund – This fund is used to account for revenues for capital improvements or construction.

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 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.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

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

F. Cash and Other Equivalents

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

Cash and cash equivalents consist of amounts on deposit in demand accounts, certificates of deposit, with maturities of 12 months or less, money market accounts, and treasury bills. 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.

Investments are reported at fair value.

H. Inventories and Prepaid Items

Donated inventories 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 statement.

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.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

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.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ -	N/A
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 Lease	*	*

(*) 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 obligations are reported as liabilities 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:

- a. Invested in capital assets, net of related debt -- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications (Continued)

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.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

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

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

Reserved for 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 long term debt – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

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

Reserved for permanent fund purposes – An account that represents a portion of the fund balance that is legally restricted for investment purposes.

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences

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

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Account Policies – (continued)

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.

(2) Changes in Accounting Standards

As required, the School District has implemented *Governmental Accounting Standards Board (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, Cash with Fiscal Agent, and Investments

Cash and Cash Equivalents

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

The carrying amount of the school district's deposits with financial institutions in the governmental funds and fiduciary funds was \$15,002,081 and \$73,139, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$15,000,936 and Restricted Assets \$1,145. The Restricted Assets represent the cash balance of an endowment fund, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$16,619,817.

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 formal 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 institution's 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 \$16,619,817 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$234,107.

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(3) Investments (continued)

As of June 30, 2005, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan Bank	2	\$ 292,850	AAA
Mississippi G.O. Bonds	1	101,202	AA
Mississippi G.O. Bonds	1	100,052	AA
Mississippi G.O. Bonds	4	111,144	AA
Mississippi G.O. Bonds	7	104,701	AA
Mississippi G.O. Bonds	17	100,000	AA
		<u>\$ 809,949</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.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party/ The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district's investment balance was exposed to custodial credit risk.

Concentrations 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 had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal Home Loan Bank	\$ 292,850	36%
Mississippi G. O. Bonds	517,099	64%
	<u>\$ 809,949</u>	

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(4) Interfund Transactions and Balance

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds	Due From	Due To	Reason
Governmental Funds			
General Funds	\$ 122,519	-	Advances for deficit fund balances
Other Governmental Funds	13,169	135,688	until reimbursement received.
Total Funds	\$ 135,688	135,688	
B. Transfers In/Out:			
Governmental Funds			
General Fund		420,182	Support for other funds
Other Governmental Funds	420,182		
Total Funds	\$ 420,182	420,182	

(5) Capital Assets

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2005
Non-depreciable capital						
Land	\$ 405,735	-	-	-		405,735
Construction in progress	2,141,139	1,411,392	-	(1,307,269)	(1,137,623)	1,107,639
Total non-depreciable	2,546,874	1,411,392	-	(1,307,269)	(1,137,623)	1,513,374
Depreciable capital assets:						
Buildings	20,109,077	-	-	987,113	-	21,096,190
Building Improvements		527,644		320,156		847,800
Improvements other than buildings	689,246	76,358	-	-	-	765,604
Mobile equipment	1,725,269	76,937	(265,742)	-	-	1,536,464
Furniture and equipment	366,642	6,048	(7,658)	-	-	365,032
Total depreciable capital	22,890,234	686,987	(273,400)	1,307,269	-	24,611,090
Less accumulated depreciation						
Buildings	(6,492,501)	(387,880)		-	-	(6,880,381)
Building Improvements		(33,912)				(33,912)
Improvements other than buildings	(303,246)	(30,624)		-	-	(333,870)
Mobile equipment	(1,234,221)	(72,259)	239,168	-	6,046	(1,061,266)
Furniture and equipment	(208,404)	(45,895)	7,581	-	-	(246,718)
Total accumulated depreciation	(8,238,372)	(570,570)	246,749	-	6,046	(8,556,147)
Total depreciable capital assets, net	14,651,862	116,417	(26,651)	1,307,269	6,046	16,054,943
Governmental activities capital assets, net	\$ 17,198,736	1,527,809	(26,651)	-	(1,131,577)	17,568,317

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets (continued)

Prior period adjustments were made to correct Siemens Energy lease (\$1,137,623), and to restate mobile equipment for prior depreciation not taken (\$6,046).

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	Remaining Commitment	Required Future Financing
Energy Efficiency Upgrade	\$ 205,098	-
IMS Metal Roof	308,520	-
Burnsville Curved Gym	23,139	-
Belmont Classrooms	289,200	-
IES Gym Floor	54,250	-
IES Roof	125,701	-
Total	\$ 1,005,908	-

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 241,394
Support Services	306,766
Non-instructional	22,410
Total depreciation expense	\$ 570,570

(6) Long Term Liabilities

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. Three-mill notes payable	\$ 138,150	2,600,000	138,150	2,600,000	223,684
B. Other loans payable	60,721	-	13,494	47,227	13,494
C. Obligations under energy efficiency lease	1,205,711		89,035	1,116,676	92,688
D. Compensated absences payable	198,706	19,693		218,399	-
	\$ 1,603,288	2,619,693	240,679	3,982,302	329,866

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long Term Liabilities (Continued)

A. Three-mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Building Loan	3.30%	9/1/2004	9/1/2014	<u>\$ 2,600,000</u>	<u>2,600,000</u>

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

June 30,	Principal	Interest	Total
2006	\$ 223,684	\$ 85,800	\$ 309,484
2007	231,066	78,418	309,484
2008	238,691	70,793	309,484
2009	246,568	62,916	309,484
2010-2014	1,360,394	187,026	1,547,420
2015	299,597	9,887	309,484
Total	<u>\$ 2,600,000</u>	<u>\$ 494,840</u>	<u>\$ 3,094,840</u>

This debt will be retired from the Three Mill Debt Retirement Fund.

B. Other loans payable.

The school district has issued debt instruments granted under the authority of Asbestos School Hazard Abatement Act of 1984.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Asbestos Abatement Loan	0.00%	5/1/1989	11/1/2008	<u>\$ 242,888</u>	<u>47,227</u>

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 13,494	-	13,494
2007	13,494	-	13,494
2008	13,494	-	13,494
2009	6,745	-	6,745
Total	<u>\$ 47,227</u>	<u>-</u>	<u>47,227</u>

This debt will be retired from the District Maintenance Fund

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE 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	Total
2006	\$ 92,688	42,979	135,667
2007	96,464	39,203	135,667
2008	100,394	35,273	135,667
2009	104,484	31,183	135,667
2010	108,741	26,926	135,667
2011-2015	613,905	64,429	678,334
Total	<u>\$ 1,116,676</u>	<u>239,993</u>	<u>1,356,669</u>

An energy efficiency lease agreement dated July 3, 2003, was executed by and between the district, the lessee, and LaSalle Bank National Association, the lessor.

The agreement authorized the borrowing of \$1,248,925 for the purchase of energy efficient equipment, machinery, supplies, building modifications, and other energy saving items. Payments of the lease shall be made from the district maintenance 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).

D. Compensated absences payable.

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

(6) Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 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 10.25% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Tishomingo County Special Municipal Separate School District's contributions to PERS for the years ending June 30, 2005, 2004, and 2003, were \$1,241,762, \$1,140,581, and \$1,068,356, respectively, equal to the required contributions for each year.

(7) Risk Management

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

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

(7) Risk Management (Continued)

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

(8) Other Commitments

Commitments under construction contracts are described in Note 5.

(9) Contingencies

The school district receives Federal Grants for specific purposes that are subject to review and audit by Federal agencies. Such audits could result in a requirement for reimbursement by the Federal agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the school district, such disallowances, if any, would not be significant to the district's financial statements.

(10) Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Correct beginning capital assets for repair items that should not have been capitalized.	<u>\$ 1,131,577</u>

**Tishomingo County Special Municipal Separate 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 to Final	Final to Actual
Revenue					
Local Sources	\$ 4,584,644	4,585,644	4,773,950	1,000	188,306
State Sources	12,510,290	12,510,290	12,613,088	-	102,798
Federal Sources	718,000	718,000	756,441	-	38,441
Total Revenues	17,812,934	17,813,934	18,143,479	1,000	329,545
Expenditures					
Instruction	11,128,440	11,164,098	10,728,821	(35,658)	435,277
Support Services	5,813,099	5,813,099	5,787,621	-	25,478
Noninstructional services	226,600	226,600	197,674	-	28,926
Facilities Acquisition and Construction	1,919,835	1,919,835	187,818	-	1,732,017
Debt Service:					
Principal	102,258	102,258	102,529	-	(271)
Interest	46,903	46,903	46,632	-	271
Total Expenditures	19,237,135	19,272,793	17,051,095	(35,658)	2,221,698
Excess (Deficiency) of Revenues over Expenditures	(1,424,201)	(1,458,859)	1,092,384	(34,658)	2,551,243
Other Financing Sources (Uses)					
Proceeds of Capital Debt	-	-	-	-	-
Insurance loss recoveries	-	-	6,360	-	6,360
Operating Transfers In	606,240	606,240	-	-	(606,240)
Operating Transfers Out	(925,040)	(2,925,040)	(420,182)	(2,000,000)	2,504,858
Sale of Capital Assets	-	-	11,089	-	11,089
Total Other Financing Sources (Uses)	(318,800)	(2,318,800)	(402,733)	(2,000,000)	1,916,067
Net Change in Fund Balance	(1,743,001)	(3,777,659)	689,651	(2,034,658)	4,467,310
Fund Balances					
July 1, 2004	3,500,000	10,020,675	10,394,299	6,520,675	373,624
June 30, 2005	\$ 1,756,999	6,243,016	11,083,950	4,486,017	4,840,934

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

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
 NOTES TO BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2005**

(1) **Basis of Presentation**

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

(2) **Budget Amendments and Revisions**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before 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) **The District exceeded budgetary limitations in the following funds as the result of making budgetary comparisons at the combined fund level. At the combined level, the District did not exceed the budget, but did exceed the budget at the individual fund level.**

Technology Fund	\$ (73,861)
Belmont Activity Fund	(21,511)
Tishomingo Elementary Activity Fund	(6,471)
Iuka Middle Activity Fund	(10,016)
Tishomingo County High School Fund	(32,633)
VoTech Fund	(17,116)
Food Service Fund	(86,014)
Summer Food Service Fund	(19,749)
Summer Food Service Fund	(7,630)
Title II Fund	(27,442)
Vocational Fund	(79,707)
Families First Fund	(74,332)
Families First Fund	<u>(36,130)</u>
Total.	<u><u>\$ (492,612)</u></u>

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	\$ 74,792
Child Nutrition Cluster:		
School breakfast program	10.553	211,350
Summer food service program for children	10.559	26,763
National school lunch program	10.555	607,256
Total Child Nutrition Cluster		845,369
Child and adult care food program	10.558	6,472
Total Passed-through MDE		851,841
Total U.S. Department of Agriculture		926,633
Federal Communications Commission		
Passed- through the Universal Services Administration Co.		
The Schools and Libraries Program of the Universal Service Fund	32.xxx	53,044
Total Federal Communications Commission		53,044
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Human Services:		
Temporary assistance for needy families	93.558	150,078
Total Passed-through Mississippi Department of Human Services		150,078
Total U.S. Department of Health and Human Services		150,078
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to state	84.027	639,076
Special education - preschool grants	84.173	23,293
Total Special Education Cluster		662,369
Improving teacher quality - state grants	84.367	242,117
Title I grants to local educational agencies	84.010	617,211
State grants for innovative programs	84.298	14,999
English language acquisition grants	84.365	19,177
Vocational education - basic grants to states	84.048	55,962
Twenty-first century community learning centers	84.287	179,472
Education technology state grants	84.318	26,899
Safe and drug-free schools and communities - state grants	84.186	16,223
Total Passed-through MDE		1,834,429
Total U.S. Department of Education		1,834,429
Total for All Federal Awards		\$ 2,964,184

Notes to the 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.

Tishomingo County Special Municipal Separate School District
Schedule of Instructional, Administrative and Other Expenses- Governmental Funds
June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instructional</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 16,806,208	12,046,379	1,584,736	3,175,093
Other	6,747,328	1,018,949	165,607	5,562,772
Total	\$ 23,553,536	13,065,328	1,750,343	8,737,865
Total number of students	<u>3,275</u>			
Cost per student	<u>\$ 7,192</u>	<u>3,989</u>	<u>535</u>	<u>2,668</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 Administrative (2300s); Support Services-School Administration (2400s); Support Services-Business (2500s).

Other - includes all expenditure functions not included in instruction or administrative.

*includes the number of students reported on the ADA report submission for month 9, which is the final submission



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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
Tishomingo County Special Municipal Separate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tishomingo County Special Municipal Separate School District as of and for the year ended June 30, 2005, which collectively comprise the Tishomingo County Special Municipal Separate School District's basic financial statements and have issued our report thereon dated October 27, 2005. 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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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, 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.

Brawner, Vanstory & Co. P.A.
October 27, 2005
Booneville, Mississippi

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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
Tishomingo County Special Municipal Separate School District

Compliance

We have audited the compliance of the Tishomingo County Special Municipal Separate 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 auditors' 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.

As described in item 2005-1 in the accompanying schedule of findings and questioned costs, the school district did not comply with requirements regarding allowable cost that are applicable to its Title I grant program. Compliance with such requirements is necessary, in our opinion, for the school district to comply with requirements applicable to that program. In our opinion, except for the noncompliance described in the preceding paragraph, Tishomingo County Special Municipal Separate 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 Tishomingo County Special Municipal Separate 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 certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major Federal Program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-1. 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 described above, we consider item 2005-1 to be a material weakness.

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

Brauer Vanstey & Co. P.A.

October 27, 2005
Booneville, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Tishomingo County Special Municipal Separate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tishomingo County Special Municipal Separate School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 27, 2005. 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.

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 an audit and, accordingly, we do not express such an opinion.

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.

As described in the accompanying Notes to the Budgetary Comparison Schedule, the District did not comply with the requirements regarding budgetary limitations that are applicable at the individual fund level. Except for the non compliance noted in the preceding paragraph, 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 other instances of noncompliance. The district reported \$10,699 of classroom supply funds carried over from previous years.

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

Brawner Vanstory & Co. P.A.

October 27, 2005
Booneville, Mississippi

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditors' 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? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|---|-----------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Qualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness (es) identified? | Yes |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section .510(a) of OMB Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |

Cluster: Special Education

CFDA #84.027
CFDA #84.173

Title I Grants to Local Educational Agencies:
CFDA #84.010

- | | | |
|-----|--|-----------|
| 8. | The dollar threshold used to distinguish between Type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative To federal awards which would require the auditee to prepare a Summary schedule of prior audit findings as discussed in Section .315(b) of OMB Circular A-133? | No |

**TISHOMINGO COUNTY SPECIAL MUNICIPAL SEPARATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following finding and questioned costs related to the federal awards.

FINDING 2005-1

Title I Grants to Local Educational Agencies

CFDA # 84.010

Adequate payroll controls were not in place to prevent payroll being charged to the Title I grant in error. \$34,588 in payroll was charged to Title I that should have been charged to other funds because of insufficient payroll controls. An audit adjustment has been made and the corrected payroll figures are reflected in this audit. The district has made the required correction to this fund overcharge in this financial statement.

Questioned cost: \$34,588

Recommendation:

We recommend that additional controls reviewing payroll allocations be put in place to insure that all funds are properly charged for their share of payroll expenditures.

Tishomingo County School District

Where Kids Come First

John B. Moore

Superintendent of Education



1620 Paul Edmondson Drive
Iuka, MS 38852



Phone: 662-423-3206
Fax: 662-423-7313

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section _____, 315 © of OMB A-133, The Tishomingo County Special Municipal Separate School District has prepared and hereby submits the following corrective action plan for the Findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

FINDING

2005-1

CORRECTIVE ACTION PLAN

- a. Contact Person:
Beth White
Business Administrator
662-423-3206
- b. It was determined that sufficient controls were not in place to prevent an error occurring in the allocation of payroll to federal program Title I Grants to Local Educational Agencies.
- c. Immediately upon notification of the error we corrected the error in the financial statements. Additionally all employee allocations were reviewed to insure they were charged to the correct fund. New procedures have been put in place to insure that allocations are properly set up at the beginning of each fiscal year and will be reviewed on a regular basis.

