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**TUPELO PUBLIC SCHOOL DISTRICT  
FINANCIAL AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

**TUPELO PUBLIC SCHOOL DISTRICT**  
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**INDEPENDENT AUDITORS' REPORT  
ON THE BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

Superintendent and School Board  
Tupelo Public School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Tupelo Public School District, as of June 30, 2005, and the respective changes in financial position, thereof and 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 November 30, 2005, on our consideration of the Tupelo Public 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 45 through 47 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

November 30, 2005  
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in dark ink and is positioned to the right of the typed date and location.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

**FINANCIAL HIGHLIGHTS**

- Total net assets for 2005 increased \$4,737,223, which represents a 15% increase from fiscal year 2004. Total net assets for 2004 increased \$5,382,997 which represents a 22% increase from fiscal year 2003. After meeting the needs of the students, the District was conservative with expenditures for fiscal year 2004 in anticipation of capital building projects.
- General revenues account for \$52,112,516 and \$49,423,429 in revenue, or 84% and 83% of all revenues for fiscal years 2005 and 2004 respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,598,359 or 16% of total revenues for 2005 and \$10,248,005 or 17% of total revenues for 2004.
- The District had \$56,973,652 and \$54,288,457 in expenses for fiscal years 2005 and 2004; only \$9,598,359 for 2005 and \$10,248,005 for 2004 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$52,112,516 for 2005 and \$49,423,429 for 2004 were adequate to provide for these programs.
- Among major funds, the General Fund had \$47,939,941 in revenues and \$44,420,243 in expenditures for 2005 and \$46,016,698 in revenues and \$41,948,569 in expenditures for 2004. The General Fund's fund balance decreased \$3,228,278 from 2004 to 2005 and increased \$1,701,909 from 2003 to 2004.
- Capital assets, net of accumulated depreciation, increased by \$3,599,470 for 2005 and by \$889,976 for 2004. The increase was mainly due to the addition of construction in progress for the Tupelo Middle School, Transplorum, THS Softball Complex, and THS Chemical Exhaust capital building projects.
- Long-term debt increased by \$4,079,165 for 2005 and decreased by \$2,814,581 for 2004.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline two types of activities:

**Governmental Activities** - These are 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.

**Component Units** - These are operations that are legally separate from the District, but for which the District is financially accountable. The nature and significance of its relationship with the school district is such that its exclusion would cause the Tupelo Public School District's financial statements to be misleading or incomplete. The District's discretely presented component unit is the Tupelo School District Learning Foundation.

The government-wide financial statements can be found on pages 15-16 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively.

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

The basic governmental fund financial statements can be found on pages 17-20 of this report.

**Proprietary funds.** The school district maintains one type of proprietary fund, internal service fund. The internal service fund is a self-insurance fund that accounts for and finances the school district's uninsured risks resulting from providing health insurance for its employees. As of June 30, 2005, this fund was inactive. This fund is presented on the proprietary fund statements on pages 21-23.

**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 24.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-44 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 45-47 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 49-50 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$34,463,065 as of June 30, 2005 and by \$29,725,842 as of June 30, 2004.

A large portion of the District's net assets (46% for 2005 and 53% for 2004) 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 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 June 30, 2004.

	2005		2004	
	Governmental Activities	Component Unit	Governmental Activities	Component Unit
Current assets	\$ 21,787,677	125,447	\$ 17,793,327	98,818
Capital assets, net	57,295,436	1,934,698	53,584,578	2,046,086
<b>Total assets</b>	<b>79,083,113</b>	<b>2,060,145</b>	<b>71,377,905</b>	<b>2,144,904</b>
Current liabilities	2,312,814	68,921	3,501,036	76,638
Long-term debt outstanding	44,298,458	-0-	40,219,293	-0-
<b>Total liabilities</b>	<b>46,611,272</b>	<b>68,921</b>	<b>43,720,329</b>	<b>76,638</b>
Net assets:				
Invested in capital assets, net of related debt	13,945,097	1,934,698	14,003,492	2,046,086
Restricted	10,836,189	-0-	2,664,063	-0-
Unrestricted	7,690,555	56,526	10,990,021	22,180
<b>Total net assets</b>	<b>\$ 32,471,841</b>	<b>1,991,224</b>	<b>\$ 27,657,576</b>	<b>2,068,266</b>

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

- The principal retirement of \$30,958,859 of long-term debt.
- Proceeds of \$34,919,201 of long-term debt
- The addition of \$4,965,691 in construction in progress for the Tupelo Middle School, Transploreum, THS Softball Complex, and THS Chemical Exhaust capital building projects.

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2005 and June 30, 2004 were \$61,710,875 and \$59,671,434 respectively. The total cost of all programs and services for 2005 was \$56,973,652 and \$54,288,457 for 2004. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and June 30, 2004.

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues	\$ 9,598,359	\$ 10,248,005
General revenues	52,112,516	49,423,429
<b>Total revenues</b>	<b><u>61,710,875</u></b>	<b><u>59,671,434</u></b>
<b>Expenses:</b>		
Instruction	33,485,687	31,501,386
Support services	18,043,742	16,725,514
Non-instructional	2,914,622	3,435,445
Interest on long-term liabilities	1,955,832	2,076,719
Learning foundation	573,769	549,393
<b>Total expenses</b>	<b><u>56,973,652</u></b>	<b><u>54,288,457</u></b>
<b>Increase in net assets</b>	<b><u>\$ 4,737,223</u></b>	<b><u>\$ 5,382,977</u></b>

**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.

	<u>2005</u>		<u>2004</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 33,485,687	\$ (28,829,637)	\$ 31,501,386	\$ (27,142,704)
Support services	18,043,742	(16,591,996)	16,725,514	(14,843,854)
Non-instructional	2,914,622	108,922	3,435,445	126,983
Interest on long-term liabilities	1,955,832	(1,955,832)	2,076,719	(2,076,719)
<b>Total expenses</b>	<b><u>\$ 56,399,883</u></b>	<b><u>\$ (47,268,543)</u></b>	<b><u>\$ 53,739,064</u></b>	<b><u>\$ (43,936,294)</u></b>

- Net cost of governmental activities (\$47,268,543 and \$43,936,294), was financed by general revenue, which is made up of primarily property taxes (\$24,436,323 for 2005 and \$23,106,459 for 2004) and state revenue (\$26,553,276 for 2005 and \$25,720,483 for 2004).
- Investment earnings accounted for \$592,446 of funding for 2005 and \$220,985 for 2004.

## **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 \$19,403,899 an increase of \$4,780,467. \$19,131,126 or 98% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$272,773 or 2% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$3,228,278. The fund balance of Other Governmental Funds showed an increase.

## **BUDGETARY HIGHLIGHTS**

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

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

Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2005, the District's total capital assets were \$79,021,969, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$5,405,010 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$19,791,835 and total depreciation expense for the year was \$1,919,179 resulting in total net capital assets of \$59,230,134.

Additional information of the District's capital assets can be found in Note 5 on pages 37-39 of this report.

**Debt Administration.** At June 30, 2005, the District had \$44,298,458 in long-term debt outstanding, of which \$3,605,000 is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on pages 39-43 of this report.

### **CURRENT ISSUES**

The Tupelo Public 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.

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

If you have questions about this report, contact the Superintendent's Office of the Tupelo Public School District, P.O. Box 557, Tupelo, Mississippi 38802.

**FINANCIAL STATEMENTS**

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Primary Government</u> Governmental Activities	<u>Component Unit</u> Learning Foundation	<u>Total</u> Reporting Entity
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 917,110	29,404	946,514
Investments (Note 3)	18,617,018	50,337	18,667,355
Due from other governments	1,788,406		1,788,406
Other receivables, net	340,622	15,893	356,515
Inventories and prepaid items	124,521	29,813	154,334
Capital assets, net (Note 5)	57,295,436	1,934,698	59,230,134
<b>Total Assets</b>	<b>\$ 79,083,113</b>	<b>2,060,145</b>	<b>81,143,258</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 2,015,127	66,187	2,081,314
Interest payable on long-term liabilities	279,749		279,749
Deferred revenue	17,938	2,734	20,672
Long-term liabilities, due within one year (Note 6)			
Capital related liabilities	3,605,000		3,605,000
Long-term liabilities, due beyond one year (Note 6)			
Capital related liabilities	40,085,960		40,085,960
Non-capital related liabilities	607,498		607,498
<b>Total Liabilities</b>	<b>\$ 46,611,272</b>	<b>68,921</b>	<b>46,680,193</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	\$ 13,945,097	1,934,698	15,879,795
Restricted net assets:			
Expendable:			
School - based activities	393,338		393,338
Debt service	2,418,937		2,418,937
Capital improvements	7,875,662		7,875,662
Unemployment benefits	148,252		148,252
Unrestricted	7,690,555	56,526	7,747,081
<b>Total Net Assets</b>	<b>\$ 32,471,841</b>	<b>1,991,224</b>	<b>34,463,065</b>

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

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

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Learning Foundation	Total Reporting Entity
Primary government:							
Governmental activities:							
Instruction	\$ 33,485,687	645,185	4,010,865		(28,829,637)		(28,829,637)
Support services	18,043,742	143,069	1,308,677		(16,591,996)		(16,591,996)
Non-instructional	2,914,622	985,518	2,038,026		108,922		108,922
Interest on long-term liabilities	1,955,832				(1,955,832)		(1,955,832)
Total Governmental Activities	56,399,883	1,773,772	7,357,568	-0-	(47,268,543)		(47,268,543)
Total Primary Government	56,399,883	1,773,772	7,357,568	-0-	(47,268,543)		(47,268,543)
Component unit:							
Learning Foundation	\$ 573,769	467,019				(106,750)	(106,750)
Total Component Unit	573,769	467,019	-0-	-0-	-0-	(106,750)	(106,750)
General revenues:							
Taxes:							
General purpose levies					\$ 19,696,715		19,696,715
Debt purpose levies					4,739,608		4,739,608
Unrestricted grants and contribution							
State					26,553,276		26,553,276
Federal					435,178		435,178
Private						25,453	25,453
Unrestricted investment income					592,446	3,074	595,520
Other					65,585	1,181	66,766
Total General Revenues					52,082,808	29,708	52,112,516
Changes in Net Assets					4,814,265	(77,042)	4,737,223
Net Assets - Beginning					27,657,576	2,068,266	29,725,842
Net Assets - Ending					\$ 32,471,841	1,991,224	34,463,065

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

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

	Major Funds				Total Governmental Funds
	General Fund	District Construction Reserve Fund	2005 STN Construction Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents (Note 3)	\$ 143,878		59	773,161	917,098
Investments (Note 3)	9,017,375	2,026,336	5,334,675	2,228,553	18,606,939
Due from other governments	777,216			1,011,190	1,788,406
Due from other funds (Note 4)	903,024	2,000,000		208,035	3,111,059
Inventories and prepaid items	37,056			87,465	124,521
Total Assets	\$ 10,878,549	4,026,336	5,334,734	4,308,404	24,548,023
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 314,210		1,473,000	226,865	2,014,075
Due to other funds (Note 4)	2,276,376		12,409	823,326	3,112,111
Deferred revenue				17,938	17,938
Total Liabilities	2,590,586	-0-	1,485,409	1,068,129	5,144,124
Fund Balances:					
Reserved for:					
Unemployment benefits	37,056			148,252	148,252
Inventory				87,465	87,465
Unreserved:					
Undesignated, reported in:					
General fund	8,250,907				8,250,907
Special Revenue funds				305,872	305,872
Capital Projects funds		4,026,336	3,849,325	2,698,686	7,875,661
Debt Service funds					2,698,686
Total Fund Balances	8,287,963	4,026,336	3,849,325	3,240,275	19,403,899
Total Liabilities and Fund Balances	\$ 10,878,549	4,026,336	5,334,734	4,308,404	24,548,023

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

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

	Amount
Total Fund Balance - Governmental Funds	\$ 19,403,899
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not resources and therefore are not reported in the funds, net of accumulated depreciation of \$18,287,690. (Note 5)	57,295,436
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(44,298,458)
3. Net deferred charges on debt issuance costs	340,622
4. Interest payable on long-term liabilities	(279,749)
5. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are:	10,091
Total Net Assets - Governmental Activities	\$ 32,471,841

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

**TUPELO PUBLIC 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	District Construction Reserve Fund	2005 STN Construction Fund	Other Governmental Funds		
Revenues:						
Local sources	\$ 20,785,474	27,322	168,928	6,186,266	27,167,990	
State sources	26,683,289			1,377,187	28,060,476	
Federal sources	471,178			5,500,378	5,971,556	
Total Revenues	<u>47,939,941</u>	<u>27,322</u>	<u>168,928</u>	<u>13,063,831</u>	<u>61,200,022</u>	
Expenditures:						
Instruction	29,072,616			4,340,470	33,413,086	
Support services	15,347,130	986	5,161	1,423,502	16,776,779	
Noninstructional services	497			2,944,590	2,945,087	
Facilities acquisition and construction			3,556,781	1,408,910	4,965,691	
Debt service:						
Principal				3,728,333	3,728,333	
Interest				1,956,138	1,956,138	
Other			77,661	289,366	367,027	
Total Expenditures	<u>44,420,243</u>	<u>986</u>	<u>3,639,603</u>	<u>16,091,309</u>	<u>64,152,141</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>3,519,698</u>	<u>26,336</u>	<u>(3,470,675)</u>	<u>(3,027,478)</u>	<u>(2,952,119)</u>	
Other Financing Sources (Uses):						
Proceeds of limited tax notes			7,320,000		7,320,000	
Proceeds of refunding bonds				26,055,000	26,055,000	
Premium on issuance of debt				1,544,201	1,544,201	
Insurance loss recoveries	13,773			13,773	13,773	
Operating transfers in	800,767	4,000,000		3,763,161	8,563,928	
Operating transfers out	(7,578,425)			(985,503)	(8,563,928)	
Payment to refunded bond escrow agent				(27,230,526)	(27,230,526)	
Total Other Financing Sources (Uses)	<u>(6,763,885)</u>	<u>4,000,000</u>	<u>7,320,000</u>	<u>3,146,333</u>	<u>7,702,448</u>	
Net Change in Fund Balances	<u>(3,244,187)</u>	<u>4,026,336</u>	<u>3,849,325</u>	<u>118,855</u>	<u>4,750,329</u>	
Fund Balances:						
July 1, 2004	11,516,241			3,107,191	14,623,432	
Increase (Decrease) in reserve for inventory	15,909			14,229	30,138	
June 30, 2005	<u>\$ 8,287,963</u>	<u>4,026,336</u>	<u>3,849,325</u>	<u>3,240,275</u>	<u>19,403,899</u>	

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

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

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 4,750,329
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 asset purchases amounted to \$5,519,797 and the depreciation expense amounted to \$1,807,791. (Note 5)	3,712,006
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities. (Note 6)	(34,919,201)
3. Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Bond issuance costs	354,161
Amortization of bond issuance costs	(13,539)
Amortization of bond premium	16,244
Amortization of advanced refunding difference	(63,529)
4. 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 net assets. (Note 6)	30,958,859
5. Losses from the disposal of capital assets are not reported in governmental funds, but the losses increase expenditures in the statement of activities.	(1,148)
6. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$279,749 which is a decrease from last year.	61,131
7. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences increased to \$607,498.	(71,538)
8. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	30,138
9. The net revenue of internal service funds is reported with governmental activities.	352
Change in Net Assets of Governmental Activities	\$ 4,814,265

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

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2005**

		<u>Internal Service Fund-Insurance</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$	12
Investments (Note 3)		<u>10,079</u>
Total current assets		<u>10,091</u>
Total Assets		<u><u>10,091</u></u>
 Net Assets		
Unrestricted		<u>10,091</u>
Total Net Assets	\$	<u><u>10,091</u></u>

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

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Internal Service Fund-Insurance</u>
Nonoperating Revenues	
Interest Income	\$ <u>352</u>
Total Nonoperating Revenues	<u>352</u>
Change In Net Assets	352
Total Net Assets - July 1, 2004	<u>9,739</u>
Total Net Assets - June 30, 2005	<u><u>\$ 10,091</u></u>

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

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2005**

	<u>Internal Service Fund-Insurance</u>
Cash Flows From Investing Activities	
Interest on investments	\$ 352
Purchase of investments	<u>(10,079)</u>
Net Cash Used by Investing Activities	(9,727)
Net decrease in cash and cash equivalents	(9,727)
Cash and cash equivalents - July 1, 2004	<u>9,739</u>
Cash and cash equivalents - June 30, 2005	<u><u>\$ 12</u></u>

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

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENTS OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 2,895	1,886,229
Investments (Note 3)	123,100	
Other receivables	<u>12,000</u>	
<b>Total Assets</b>	<u><u>137,995</u></u>	<u><u>1,886,229</u></u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities		1,857,484
Due to other funds (Note 4)	501	
Due to student clubs		<u>28,745</u>
<b>Total Liabilities</b>	<u><u>501</u></u>	<u><u>28,745</u></u>
<b>Net Assets</b>		
Reserved for endowments	100,000	
Held in trust	<u>37,494</u>	
<b>Total Net Assets</b>	<u><u>\$ 137,494</u></u>	<u><u>-0-</u></u>

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

**TUPELO PUBLIC SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 4,638
Contributions and donations from private sources	<u>100</u>
Total Additions	4,738
Deductions	
Scholarships awarded	5,350
Other	<u>60</u>
Total Deductions	<u>5,410</u>
Change in Net Assets	(672)
Net Assets July 1, 2004	<u>138,166</u>
Net Assets June 30, 2005	<u><u>\$ 137,494</u></u>

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

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

**Note 1: Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

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

The accompanying basic financial statements present the Tupelo Public School District and its component units, entities for which the district is considered to be financially accountable in accordance with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Blended component units although legally separate entities are, in substance, part of the district's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Tupelo Public School District.

**B. Component Units**

The Tupelo Public Schools Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a three member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the financial statements of the school district.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

The Tupelo School District Learning Foundation (Foundation) is incorporated in Mississippi as a non-profit organization exclusively for educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The Foundation is considered to be a discretely presented component unit. The Foundation was formed to receive and maintain a contribution of an apartment complex and related assets and receives primarily all of its income from rentals of the apartments.

**C. Basis of Presentation**

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

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include 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 primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The Statement of Net Assets presents the financial condition of the governmental activities and the discretely presented component unit at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues and for each function or program of the school district's governmental activities and for the discretely presented component unit. 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.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

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 set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category.

**D. Measurement Focus and Basis of Accounting**

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

In the fund financial statements, governmental funds, proprietary 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.

District Construction Reserve Fund - This is the school district's fund used to account for expenditures related to future renovation and construction costs to prevent additional debt.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

2005 STN Construction Fund - This is the school district's fund used to account for expenditures related to renovation and construction primarily at the Tupelo Middle School.

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.

**PROPRIETARY FUNDS**

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the district on a cost-reimbursement basis.

**FIDUCIARY FUNDS**

Private-purpose Trust Funds - Private-purpose Trust Funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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.

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**E. Account Classifications**

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* 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.

**F. Encumbrances**

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

**G. Cash and Cash Equivalents**

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

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

**H. 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.

**I. 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).

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

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.

**J. Capital Assets**

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

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

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

(\*) The threshold amounts will correspond with the amounts for the asset classifications as listed. See note 5 for details.

**K. Long-term Liabilities**

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

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

**L. 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 of interfund transactions, including receivables and payables at year-end.

**M. Equity Classifications**

Government-wide Financial Statements

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

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

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

Reserved for 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.

**N. 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.

**O. 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.

**P. 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

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

**Note 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 the standard.

**Note 3: Cash and Cash Equivalents, Cash with Fiscal Agents, 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 reported in the governmental funds, proprietary funds, and fiduciary funds was \$917,098, \$12, and \$1,889,124, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$946,514. The bank balance was \$3,944,360.

*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 the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$3,944,360 was exposed to custodial credit risk.

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

**Note 3: Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments (Continued)**

Investments

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>
Mississippi Education Investment Pool A	1 to 5	\$ 2,260,832	Various
Mississippi Education Investment Pool B	less than 1	<u>16,529,623</u>	Various
Total Investments		<u>\$ 18,790,455</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 investments choices or one that addresses credit risk.

**Note 4: Interfund Transactions and Balances**

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 903,024	2,276,376
District construction reserve fund	2,000,000	
2005 STN construction fund		12,409
Other governmental funds	208,035	823,326
Fiduciary funds		501
Component unit	<u>1,553</u>	
Total	<u>\$ 3,112,612</u>	<u>3,112,612</u>

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

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

**Note 4: Interfund Transactions and Balances (Continued)**

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ 800,767	7,578,425
District construction reserve fund	4,000,000	
Other governmental funds	<u>3,763,161</u>	<u>985,503</u>
Total	<u>\$ 8,563,928</u>	<u>8,563,928</u>

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

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

**Note 5: Capital Assets**

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Balance 6/30/2005
<u>Non-depreciable capital assets</u>					
Land	\$ 3,922,182				3,922,182
Construction in progress	2,139,880	4,965,691		(3,325,021)	3,780,550
Total non-depreciable capital assets	<u>6,062,062</u>	<u>4,965,691</u>	<u>-0-</u>	<u>(3,325,021)</u>	<u>7,702,732</u>
<u>Depreciable capital assets</u>					
Buildings	50,681,177			661,707	51,342,884
Buildings improvements	6,866,753			2,663,314	9,530,067
Improvements other than buildings	1,271,497				1,271,497
Mobile equipment	3,246,823	231,000			3,477,823
Furniture and equipment	2,049,804	323,106	(114,787)		2,258,123
Total depreciable capital assets	<u>64,116,054</u>	<u>554,106</u>	<u>(114,787)</u>	<u>3,325,021</u>	<u>67,880,394</u>
<u>Less accumulated depreciation for:</u>					
Buildings	11,466,170	944,099			12,410,269
Buildings improvements	782,324	381,203			1,163,527
Improvements other than buildings	511,824	40,764			552,588
Mobile equipment	2,111,297	215,321			2,326,618
Furniture and equipment	1,721,923	226,404	(113,639)		1,834,688
Total accumulated depreciation	<u>16,593,538</u>	<u>1,807,791</u>	<u>(113,639)</u>	<u>-0-</u>	<u>18,287,690</u>
Total depreciable capital assets, net	<u>47,522,516</u>	<u>(1,253,685)</u>	<u>(1,148)</u>	<u>3,325,021</u>	<u>49,592,704</u>
Capital assets, net	<u>\$ 53,584,578</u>	<u>3,712,006</u>	<u>(1,148)</u>	<u>-0-</u>	<u>57,295,436</u>

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

**Note 5: Capital Assets (Continued)**

The following is a summary of changes in the component unit capital assets:

	Balance 7/1/2004	Additions	Retirements	Balance 6/30/2005
<u>Non-depreciable capital assets</u>				
Land	\$ 200,000			200,000
Total non-depreciable capital assets	<u>200,000</u>	<u>-0-</u>	<u>-0-</u>	<u>200,000</u>
<u>Depreciable capital assets</u>				
Buildings	3,210,000			3,210,000
Furniture and equipment	28,843			28,843
Total depreciable capital assets	<u>3,238,843</u>	<u>-0-</u>	<u>-0-</u>	<u>3,238,843</u>
<u>Less accumulated depreciation for:</u>				
Buildings	1,373,167	107,000		1,480,167
Furniture and equipment	19,590	4,388		23,978
Total accumulated depreciation	<u>1,392,757</u>	<u>111,388</u>	<u>-0-</u>	<u>1,504,145</u>
Total depreciable capital assets, net	<u>1,846,086</u>	<u>(111,388)</u>	<u>-0-</u>	<u>1,734,698</u>
Capital assets, net	<u>\$ 2,046,086</u>	<u>(111,388)</u>	<u>-0-</u>	<u>1,934,698</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 1,325,615
Support services	466,448
Non-instructional	15,728
Total governmental activities depreciation expense	<u>\$ 1,807,791</u>
Component unit:	
Learning foundation	\$ 111,388
Total component unit depreciation expense	<u>\$ 111,388</u>

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

**Note 5: Capital Assets (Continued)**

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

	Remaining Commitment	Required Future Financing
THS Softball Complex	\$ 7,545	\$ -0-
THS Chemical Exhaust	39,006	-0-
Phase 2 - TMS HVAC	<u>3,008,858</u>	<u>-0-</u>
	<u>\$ 3,055,409</u>	<u>\$ -0-</u>

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

**Note 6: Long-term Liabilities**

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. General obligation					
bonds payable	\$ 39,245,000	26,055,000	29,345,000	35,955,000	3,285,000
Deferred amount on refunding		(1,075,526)	63,529	(1,011,997)	
Unamortized premiums		1,544,201	16,244	1,527,957	
B. Limited tax notes payable		7,320,000	100,000	7,220,000	320,000
C. Three mill notes payable	345,000		345,000	-0-	
D. Shortfall notes payable	93,333		93,333	-0-	
E. Compensated absences	<u>535,960</u>	<u>71,538</u>		<u>607,498</u>	
Total	<u>\$ 40,219,293</u>	<u>33,915,213</u>	<u>29,963,106</u>	<u>44,298,458</u>	<u>3,605,000</u>

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

**Note 6: Long-term Liabilities (Continued)**

**A. General obligation bonds payable**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1998	Various	12/1/1998	9/1/2016	\$ 6,160,000	\$ 5,400,000
General obligation bonds, Series 1999	Various	11/1/1999	11/1/2017	29,500,000	6,090,000
General obligation bonds, Series 2004	Various	8/26/2004	12/1/2008	7,305,000	5,715,000
General obligation bonds, Series 2005	Various	5/1/2005	11/1/2015	<u>18,750,000</u>	<u>18,750,000</u>
<b>Total</b>				<b><u>\$ 61,715,000</u></b>	<b><u>\$ 35,955,000</u></b>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,285,000	1,492,523	4,777,523
2007	3,485,000	1,398,765	4,883,765
2008	3,620,000	1,249,084	4,869,084
2009	3,775,000	1,096,505	4,871,505
2010	3,180,000	949,578	4,129,578
2011-2015	15,410,000	2,666,241	18,076,241
2016-2018	<u>3,200,000</u>	<u>81,478</u>	<u>3,281,478</u>
<b>Total</b>	<b><u>\$ 35,955,000</u></b>	<b><u>8,934,174</u></b>	<b><u>44,889,174</u></b>

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 9% of property assessments as of October 1, 2004. This debt will be retired from the BI 2005 Retirement, L/P 1999 Retirement, and BI 1999 Retirement funds.

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

**Note 6: Long-term Liabilities (Continued)**

Current Refunding.

On August 26, 2004, the district issued \$7,305,000 in general obligation bonds series 2004 with an average interest rate of 3.10 percent to advance refund \$7,205,000 of outstanding general obligation bonds series 1994 with an average interest rate of 4.97 percent. The net proceeds of \$7,293,025 after payments of \$123,271 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation bonds series 1994.

As a result, the general obligation bonds series 1994 are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the general obligation bonds series 1994 to reduce its total debt service payments over the remaining 5 years of the debt by approximately \$276,337.

On May 1, 2005, the district issued \$18,750,000 in general obligation bonds series 2005 with an average interest rate of 4.81 percent to advance refund \$18,950,000 of outstanding general obligation bonds series 1999 with an average interest rate of 5.16 percent. The net proceeds of \$19,937,501 after payments of \$245,404 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation bonds series 1999.

As a result, the general obligation bonds series 1999 are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the general obligation bonds series 1999 to reduce its total debt service payments over the remaining 13 years of the debt by approximately \$1,342,778.

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

**Note 6: Long-term Liabilities (Continued)**

**B. Limited tax notes**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax notes, Series 2004	Various	8/26/2004	6/1/2017	\$ 7,320,000	\$ 7,220,000
<b>Total</b>				<u>\$ 7,320,000</u>	<u>\$ 7,220,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 320,000	255,765	575,765
2007	405,000	247,765	652,765
2008	470,000	235,615	705,615
2009	525,000	221,515	746,515
2010	535,000	205,765	740,765
2011-2015	3,415,000	707,610	4,122,610
2016-2018	1,550,000	94,390	1,644,390
<b>Total</b>	<u>\$ 7,220,000</u>	<u>1,968,425</u>	<u>9,188,425</u>

**C. Three mill notes payable**

This debt was repaid in full during the fiscal year.

**D. Shortfall notes payable.**

This debt was repaid in full during the fiscal year.

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

**Note 6: Long-term Liabilities (Continued)**

E. Compensated absences payable.

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

**Note 7: Defined Benefit Pension Plan**

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$3,235,278, \$3,076,950, and \$3,131,032, respectively, which equaled the required contributions for each year.

**Note 8: 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.

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

**Note 8: Risk Management (Continued)**

Participation in Public Entity Risk Pool

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

**Note 9: Prior Year Defeasance of Debt**

In prior years, the Tupelo Public 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, \$10,945,000 of bonds outstanding were defeased.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TUPELO PUBLIC SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 22,204,550	20,785,473	20,785,473	(1,419,077)	-0-
State sources	28,407,932	26,683,289	26,683,289	(1,724,643)	-0-
Federal sources	176,000	471,178	471,178	295,178	-0-
Total Revenues	<u>50,788,482</u>	<u>47,939,940</u>	<u>47,939,940</u>	<u>(2,848,542)</u>	<u>-0-</u>
<b>Expenditures:</b>					
Instruction	33,229,644	29,072,616	29,072,616	4,157,028	-0-
Support services	18,403,339	15,347,130	15,347,130	3,056,209	-0-
Non instructional services		497	497	(497)	-0-
Total Expenditures	<u>51,632,983</u>	<u>44,420,243</u>	<u>44,420,243</u>	<u>7,212,740</u>	<u>-0-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	<u>(844,501)</u>	<u>3,519,697</u>	<u>3,519,697</u>	<u>4,364,198</u>	<u>-0-</u>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries		13,773	13,773	13,773	-0-
Operating transfers in		800,767	800,767	800,767	-0-
Operating transfers out	(3,565,151)	(7,578,425)	(7,578,425)	(4,013,274)	-0-
Total Other Financing Sources (Uses)	<u>(3,565,151)</u>	<u>(6,763,885)</u>	<u>(6,763,885)</u>	<u>(3,198,734)</u>	<u>-0-</u>
<b>Net Change in Fund Balances</b>					
	<u>(4,409,652)</u>	<u>(3,244,188)</u>	<u>(3,244,188)</u>	<u>1,165,464</u>	<u>-0-</u>
<b>Fund Balances:</b>					
July 1, 2004	11,516,241	11,516,241	11,516,241	-0-	-0-
Increase (Decrease) in reserve for inventory		15,909	15,909	15,909	-0-
June 30, 2005	<u>\$ 7,106,589</u>	<u>8,287,962</u>	<u>8,287,962</u>	<u>1,181,373</u>	<u>-0-</u>

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

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

**Budgetary Comparison Schedule**

**Note 1: Basis of Presentation**

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

**Note 2: Budget amendments and revisions**

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

**SUPPLEMENTAL INFORMATION**

**TUPELO PUBLIC 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
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 170,556
Child Nutrition Cluster:		
School breakfast program	10.553	398,038
National school lunch program	10.555	1,254,278
Summer food service program for children	10.559	120,704
Total		<u>1,773,020</u>
Special supplemental nutrition program for women, infants, and children	10.557	24,079
<b>Total U.S. Department of Agriculture</b>		<u>1,967,655</u>
<b>National Aeronautics and Space Administration</b>		
Passed-through University of Mississippi:		
Aerospace education services program	43.001	5,000
<b>Total National Aeronautics and Space Administration</b>		<u>5,000</u>
<b>National Science Foundation</b>		
Education and human resources	47.076	10,550
<b>Total National Science Foundation</b>		<u>10,550</u>
<b>U.S. Department of Education</b>		
Direct program		
Fund for the improvement of postsecondary education	84.116	220,326
Passed through Mississippi Department of Education:		
Special Education Cluster:		
Special education - grants to states	84.027	1,242,020
Special education - preschool grants	84.173	80,944
Total		<u>1,322,964</u>
Title I - grants to local educational agencies	84.010	1,333,262
Vocational education - basic grants to state	84.048	81,358
Safe and drug-free schools and communities - state grants	84.186	40,260
Education for homeless children and youth	84.196	56,725
Fund for the improvement of education	84.215	749

**TUPELO PUBLIC 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
State grants for innovative programs	84.298	30,729
Education technology state grants	84.318	27,529
Teacher quality enhancement grants	84.336	5,000
English language acquisition grants	84.365	79,805
Improving teacher quality state grants	84.367	351,359
Total passed through MDE		<u>3,329,740</u>
<b>Total U.S. Department of Education</b>		<u>3,550,066</u>
<b>Corporation for National and Community Service</b>		
Passed-through Mississippi Department of Education:		
Learn and serve america-school and community based program	94.004	7,379
<b>Total Corporation for National and Community Service</b>		<u>7,379</u>
<b>Total for All Federal Awards</b>		<u><u>\$ 5,540,650</u></u>

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

Note 2: The expenditure amounts include transfers out.

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

**TUPELO PUBLIC SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 43,270,624	30,766,655	3,706,769	8,797,200
Other	<u>20,881,517</u>	<u>2,646,431</u>	<u>499,445</u>	<u>17,735,641</u>
Total	\$ <u>64,152,141</u>	<u>33,413,086</u>	<u>4,206,214</u>	<u>26,532,841</u>
Total number of students	7,107			
Cost per student	\$ <u>9,027</u>	<u>4,701</u>	<u>592</u>	<u>3,733</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

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

# J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board  
Tupelo Public School District

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Tupelo Public School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 30, 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 30, 2005  
Tupelo, Mississippi

*J. E. Vance & Company*

# J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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  
Tupelo Public School District

### Compliance

We have audited the compliance of the Tupelo Public 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, Tupelo Public 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 Tupelo Public 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 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.

November 30, 2005  
Tupelo, Mississippi

*J. E. Vance & Company*

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Superintendent and School Board  
Tupelo Public School District

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Tupelo Public School District as of and for the year ended June 30, 2005, which collectively comprise Tupelo Public School District's basic financial statements and have issued our report thereon dated November 30, 2005. 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..

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 \$59,534 of classroom supply funds carried over from previous years.

The results of our 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.

November 30, 2005  
Tupelo, Mississippi



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**TUPELO PUBLIC 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 condition(s) identified that are not considered to be material weaknesses? | No          |

**Federal Awards:**

- |  |             |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs:             | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weakness(es) identified?   | No          |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No          |
| 6. Any audit findings reported as required by Section __.510(a) of OMB Circular A-133?   | No          |
| 7. Federal program identified as a major program:  |             |
| a. Title I Grants to Local Educational Agencies<br>CFDA #84.010                          |             |
| b. Improving Teacher Quality State Grants<br>CFDA #84.367                                |             |

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

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

- |  |            |
|--|------------|
| 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 __.510(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.