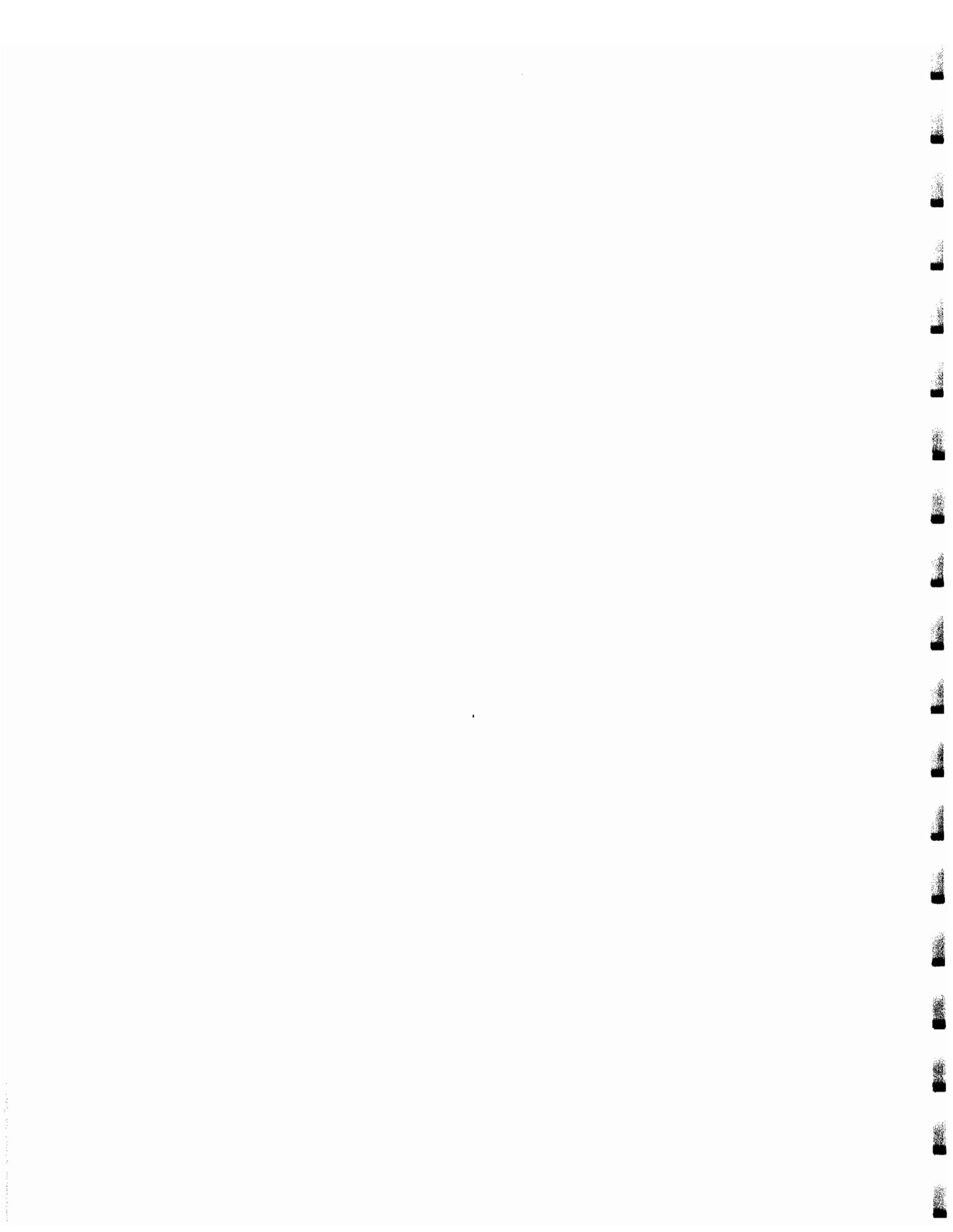




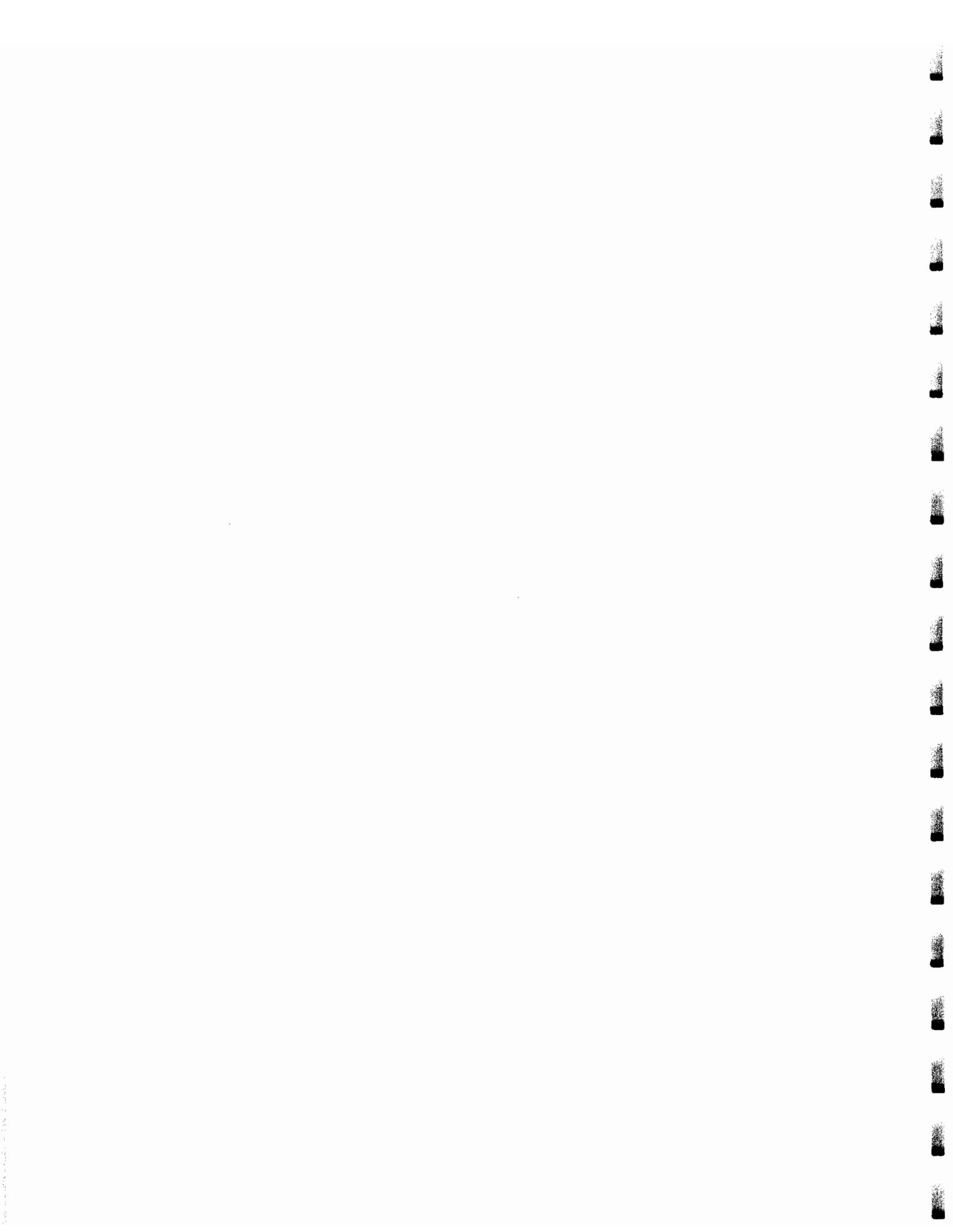
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DESOTO COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006



**DESOTO COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS**

FINANCIAL AUDIT REPORT.....	1
Independent Auditor’s Report on the Basic Financial Statements and Supplemental Information.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	5
FINANCIAL STATEMENTS	15
Statement of Net Assets	16
Statement of Activities	17
Balance Sheet – Governmental Funds.....	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds ..	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	21
Statement of Fiduciary Net Assets – Agency Funds	22
Notes to the Financial Statements	23
REQUIRED SUPPLEMENTAL INFORMATION.....	40
Budgetary Comparison Schedule for the General Fund.....	41
Notes to the Required Supplemental Information	42
SUPPLEMENTAL INFORMATION	43
Schedule of Expenditures of Federal Awards	44
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	45
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	47
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	49
Independent Auditor’s Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	51
Independent Auditor’s Report on Compliance with State Laws and Regulations	53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	55
AUDITEE’S CORRECTIVE ACTION PLAN	59



DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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WILLIAMS * PITTS * BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

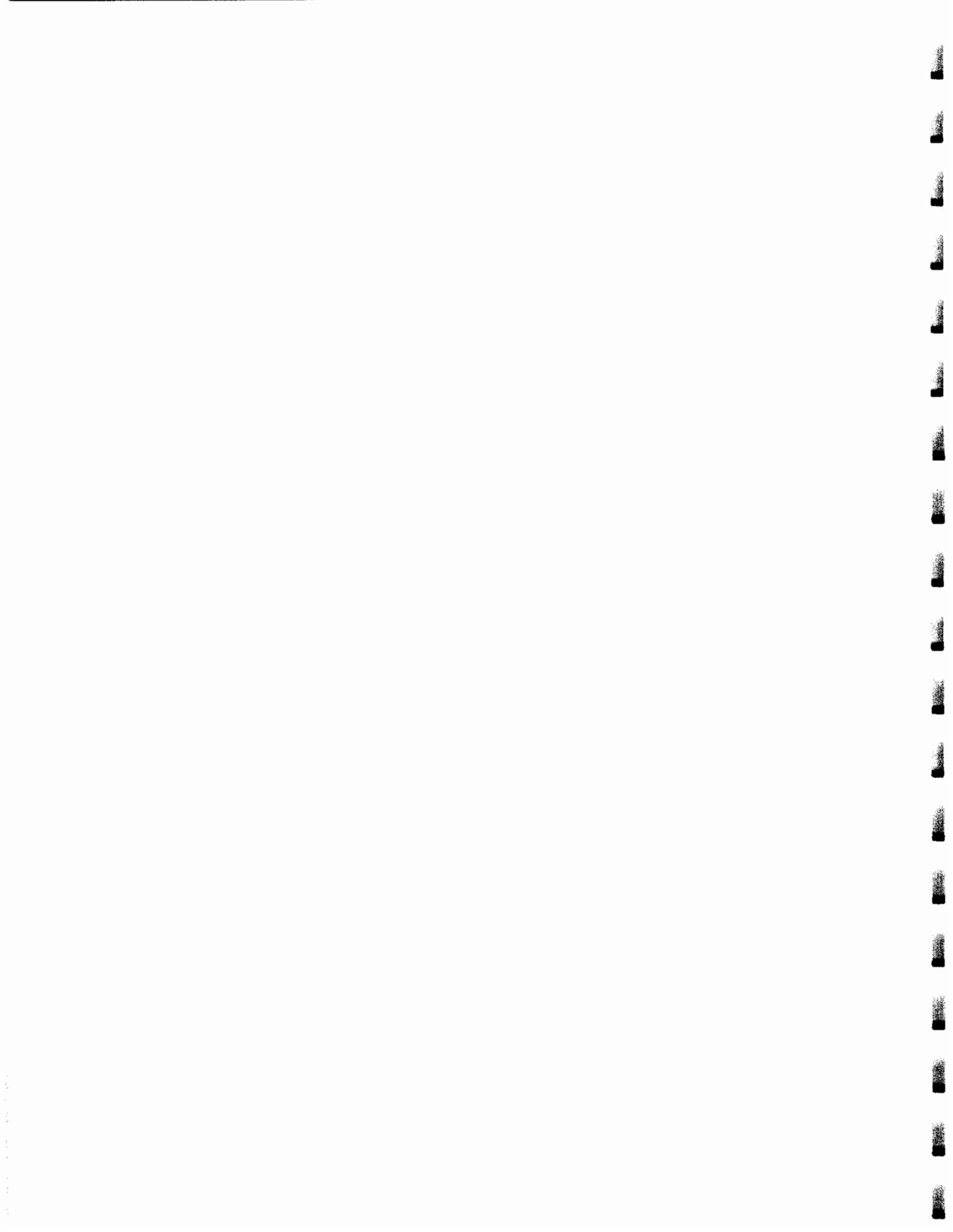
Superintendent and School Board
DeSoto County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2006, which collectively comprise the DeSoto County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DeSoto County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2006, on our consideration of the DeSoto County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over 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 considering the results of our audit.



The Management's Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

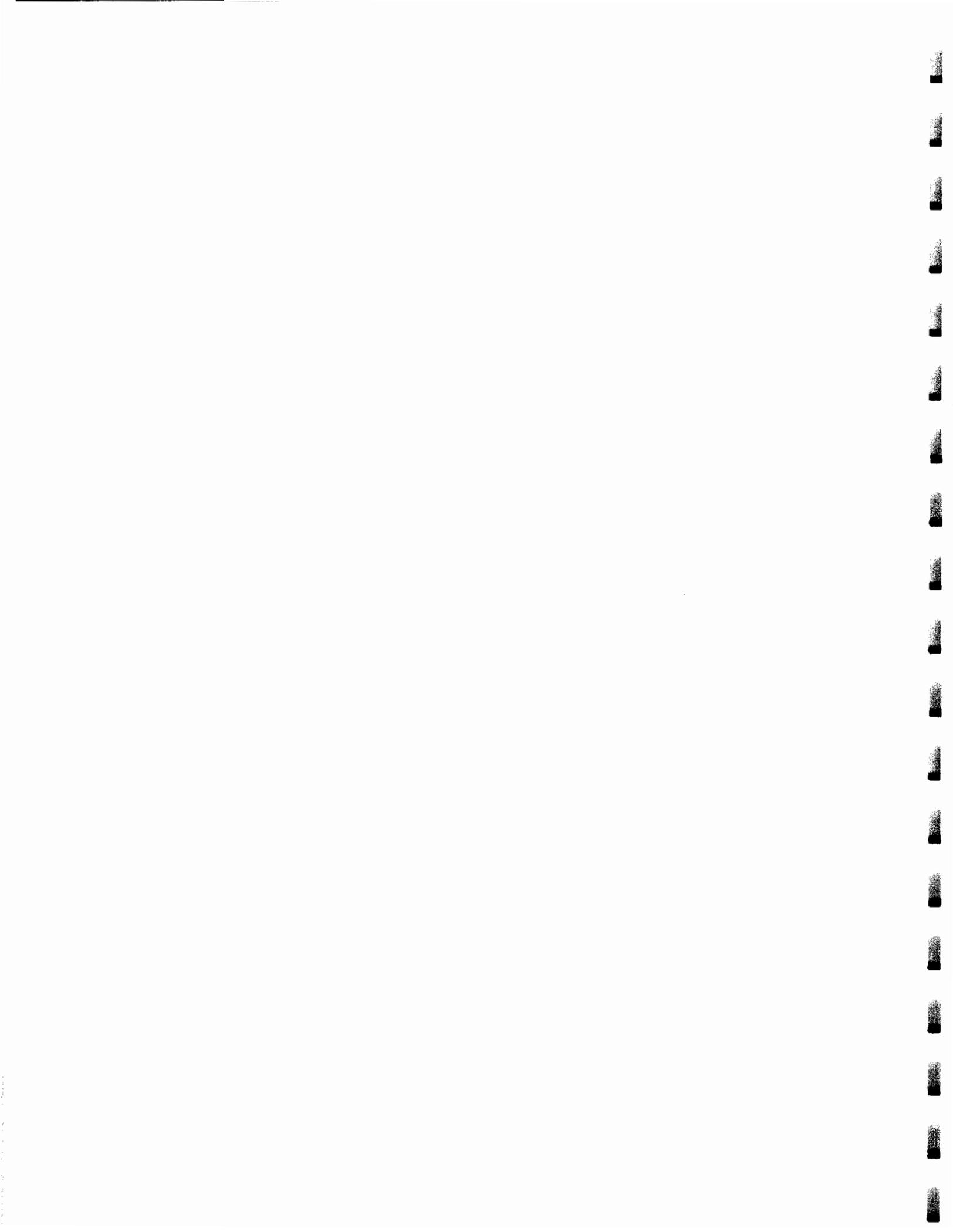
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DeSoto County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

November 27, 2006



DESOTO COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006

The discussion and analysis of DeSoto County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$13,002,741, which represents a 10% increase from fiscal year 2005.
- General revenues account for \$157,531,413 in revenue, or 87% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$25,392,142 or 14% of total revenues.
- The District had \$169,046,381 in expenses; only \$25,392,142 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$157,531,413 were more than adequate to provide for the balance of these expenses.
- Among major funds, the General Fund had \$147,599,926 in revenues and \$135,600,666 in expenditures. The General Fund's fund balance increased \$11,999,260 from the prior year. The increase in fund balance was mainly the result of utilizing bond proceeds and as well as proceeds from certificates of participation to pay for capital outlays and building improvements that would otherwise have been paid for with district funds. The district received approximately \$1,013,000 in federal funds for Hurricane Katrina which offset teachers' salaries in the General Fund. Also, we did not transfer any additional funds to a capital projects fund for future construction as was done in fiscal year 2005.
- Capital assets, net of accumulated depreciation, increased by \$99,504,605. The increase in capital assets was mainly due to building projects funded by approximately \$115,000,000 in bond proceeds and \$29,020,000 in certificates of participation over the fiscal years 2005, 2006, and subsequently 2007. Over \$26,750,000 in new construction was added which includes the following: band hall additions at Hernando High, Horn Lake High, and Southaven High; the completion of Lewisburg Elementary School; additional classrooms and a cafeteria at Shadow Oaks Elementary; physical education buildings at eight elementary schools; field improvements at Hernando High School, and various renovations to existing schools. Approximately \$100,675,000 in construction in progress was added mainly for the following projects: seven new schools which are Lewisburg Middle High School, New Horn Lake High School, Centerhill Middle High School, Hernando Hills Elementary, Overpark Elementary, Lake Cormorant Middle School, and the New Southaven High School; renovations and additions at Hernando High School; classroom additions at Pleasant Hill Elementary and Olive Branch High School; a library addition at Olive Branch Middle School; and various road and site improvement projects.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006**

- Long-term debt increased by \$175,000 (exclusive of compensated absences). This was the net result of the issuance of \$8,900,000 in certificates of participation and principal payments made on existing debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 16 – 17 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006**

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 19 and 21, respectively.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the

District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. 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 18 – 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 22.

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 23 – 39 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. This required supplementary information can be found on page 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$147,439,459 as of June 30, 2006.

By far the largest portion of the District's net assets (95%) reflects its unrestricted fund balance which is primarily cash and investments which will be used in the next two fiscal years to fund the building of seven new schools.

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

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006

assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 and 2005. Current assets decreased by (\$85,400,523) primarily due to the completion of construction projects resulting in an increase of capital assets.

	Net Assets		Percentage Change
	2006	2005	
Assets:			
Current assets	\$ 68,679,392	\$ 154,079,915	-55.4%
Non-current assets	894,818	903,393	-0.9%
Capital assets, net	258,791,351	159,286,746	62.5%
Total assets	328,365,561	314,270,054	4.5%
Liabilities:			
Current liabilities	27,284,725	23,798,564	14.6%
Long-term liabilities	153,641,377	156,034,772	-1.5%
Total liabilities	180,926,102	179,833,336	0.6%
Net assets:			
Invested in capital assets, net of related debt	96,541,351	(2,788,254)	--
Restricted	15,328,039	9,391,069	63.2%
Unrestricted	35,570,069	127,833,903	-72.2%
Total net assets	\$ 147,439,459	\$ 134,436,718	9.7%

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

- The issuance of \$8,900,000 in certificates of participation. Also, the principal retirement of \$8,725,000 in long-term debt.
- Building projects funded by approximately \$115,000,000 in bond proceeds and \$29,020,000 in certificates of participation over the fiscal years 2005, 2006, and subsequently 2007. Over \$26,750,000 in new construction was added which includes the following: band hall additions at Hernando High, Horn Lake High, and Southaven High; the completion of Lewisburg Elementary School; additional classrooms and a cafeteria at Shadow Oaks Elementary; physical education buildings at eight elementary schools; field improvements at Hernando High Schools, and various renovations to existing schools. Approximately \$100,675,000 in construction in progress was added mainly for the following projects: seven new schools which are Lewisburg Middle High School, New Horn Lake High School, Centerhill Middle High School, Hernando Hills Elementary, Overpark Elementary, Lake Cormorant Middle School, and the New Southaven High School; renovations and additions at Hernando High School; classroom additions at Pleasant Hill Elementary and Olive Branch High School; a library addition at Olive Branch Middle School; and various road and site improvement projects.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2006 were \$182,923,555. The total cost of all programs and services was \$ 169,046,381. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006

	Change in Net Assets		Percentage Change
	2006	2005	
Revenues:			
Program revenues			
Charges for services	\$ 9,096,747	\$ 8,223,445	10.6%
Operating grants and contributions	16,295,395	13,474,940	20.9%
General revenues			
Property taxes	53,686,537	47,032,269	14.1%
Grants and contributions not restricted	100,048,987	87,083,858	14.9%
Other	3,795,889	3,668,267	3.5%
Total revenues	\$ 182,923,555	\$ 159,482,779	14.7%
Expenses:			
Instruction	\$ 92,730,085	\$ 80,956,836	14.5%
Support services	60,828,519	51,143,406	18.9%
Non-instructional	8,667,968	7,145,546	21.3%
Interest on long-term liabilities	6,819,809	3,506,702	94.5%
Total expenses	169,046,381	142,752,490	18.4%
Increase in net assets	\$ 13,877,174	\$ 16,730,289	-17.1%

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.

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 92,730,085	\$ (75,942,406)	\$ 80,956,836	\$ (66,507,891)
Support services	60,828,519	(60,778,519)	51,143,406	(51,044,355)
Non-instructional	8,667,968	(113,505)	7,145,546	4,843
Interest on long-term liabilities	6,819,809	(6,819,809)	3,506,702	(3,506,702)
Total expenses	\$ 169,046,381	\$ (143,654,239)	\$ 142,752,490	\$ (121,054,105)

- In 2006, net cost of governmental activities (\$143,654,239), was financed by general revenue, which is made up primarily of property taxes of \$53,686,537 and state revenue of \$98,294,516. The Mississippi Adequate Education Program provides the largest portion of unrestricted state funds in the amount of \$89,997,236, with other state grants categorized as Homestead Exemption, Ad Valorem Tax Reduction Grant, and Chickasaw Funds. In 2005, property taxes were \$47,032,269 and state revenue \$86,731,836. Investment earnings accounted for \$3,775,420 of funding in 2006 and \$1,924,956 in 2005.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006**

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 \$ 52,795,610, a decrease of (\$86,065,358) due primarily to the expending of over \$90,000,000 in capital projects funds. \$46,369,589 or 88.8% 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 \$6,426,021 is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$9,896,290, a result of capital projects funds relieving the district of repair and maintenance funds normally paid through the general fund. Also, the District received federal Katrina Aid funds that help offset District expenditures. The net change in fund balance of all other Non-general Funds showed a decrease of (\$95,961,648). This is a result of the spending of bond and certificate of participation funds received in FY2005 but spent in FY2006.

BUDGETARY HIGHLIGHTS

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

- Budget amendments were made to increase expenditures for additional personnel and support services necessary for the additional 1700 children enrolled in FY06. Amendments were also made for new funds and carry-over funds in Federal Programs as well as grants awarded during the year.
- Budgeted amounts for facilities acquisition and construction expenditures were increased with the issuance of and additional certificate of participation.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$258,791,351, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$99,504,605 from the previous year. The increase in capital assets is mainly due to building projects which include the following: band hall additions at Hernando High, Horn Lake High, and Southaven High; the completion of Lewisburg Elementary School; additional classrooms and a cafeteria at Shadow Oaks Elementary; physical education buildings at eight elementary schools; field improvements at Hernando High Schools, and various renovations to existing schools. Approximately \$100,675,000 in construction in progress was added mainly for the following projects: seven new schools which are Lewisburg Middle High School, New Horn Lake High School, Centerhill Middle High School, Hernando Hills Elementary, Overpark Elementary, Lake Cormorant Middle School, and the New Southaven High School; renovations and additions

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2006**

at Hernando High School; classroom additions at Pleasant Hill Elementary and Olive Branch High School; a library addition at Olive Branch Middle School; and various road and site improvement projects. Accumulated depreciation as of June 30, 2006 was \$37,284,261 and total depreciation expense for the year was \$5,084,174.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	10,410,865	10,400,715	0.1%
Construction in Progress	112,294,628	38,905,498	188.6%
Buildings	114,788,006	97,878,563	17.3%
Building improvements	4,353,068	1,251,289	247.9%
Improvements other than buildings	5,410,844	1,507,100	259.0%
Mobile equipment	8,865,003	7,209,427	23.0%
Furniture and equipment	2,668,937	2,134,154	25.1%
Total	<u>258,791,351</u>	<u>159,286,746</u>	62.5%

Additional information on the District's capital assets can be found in Note 4 of this report.

Debt Administration. At June 30, 2006, the District had \$163,235,413 in general obligation bonds and other long-term debt outstanding, of which \$10,155,000 is due within one year. The Limited Tax Notes were financed with a twenty (20) year debt schedule. The District still has 2.40 mils available to borrow under the Limited Tax Note statute. The 2002 General Obligation bonds were refinanced with a ten (10) year debt schedule. The 2004 General Obligation bond Series A was financed with a twelve (12) year debt schedule. Series B was financed with a ten (10) year debt schedule. The 2006 General Obligation bonds were financed with a fourteen (14) year debt schedule. Ad valorem requests to DeSoto County are adequate to cover the annual debt service for FY2006. The 2004 Certificates of Participation were financed with a fifteen (15) year debt schedule. The debt service payments are financed through a combination of District Maintenance funds and the EEF Buildings and Buses fund which has been pledged to retire this debt.

The District maintains an AAA bond rating. Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The DeSoto County School District is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County has been experiencing phenomenal growth over the past several years, and the trend is for even greater growth in the future. The District has gained at least 1200 children per year for the past five years, and projects a gain of 1800 children for FY2007. Even with the growth, the District has been able to maintain a healthy fund balance with minimal increases in millage.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the DeSoto County School District, 5 E. South St, Hernando, MS 38632 .

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DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2006

	Government Activities
ASSETS	
Cash and cash equivalents (Note 2)	\$ 31,664,047
Investments	32,961,258
Due from other governments	3,962,796
Inventories and prepaid items	91,291
Bond issue cost	894,818
Capital assets, not being depreciated:	
Land	10,410,865
Construction in progress	112,294,628
Capital assets, net of accumulated depreciation:	
Buildings	114,788,006
Building improvements	4,353,068
Improvements other than buildings	5,410,844
Mobile equipment	8,865,003
Furniture and equipment	2,668,937
Total assets	<u>\$ 328,365,561</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 11,514,606
Due to other governments	4,300,309
Deferred revenue	68,867
Interest payable on long-term liabilities	1,245,943
Long-term liabilities, due within one year	
Capital related liabilities	10,155,000
Long-term liabilities, due beyond one year	
Capital related liabilities	152,095,000
Bond premium	1,555,601
Bond discount	(190,861)
Loss on advanced refunding bond	(803,776)
Non-capital liabilities	985,413
Total liabilities	<u>\$ 180,926,102</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 96,541,351
Restricted net assets	
Expendable:	
School based activities	3,506,898
Debt service	5,422,641
Capital improvements	5,942,500
Unemployment benefits	456,000
Unrestricted	35,570,069
Total Net Assets	<u>\$ 147,439,459</u>

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

Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
Instruction	\$ 92,730,085	5,603,827	11,183,852	-	(75,942,406)
Support services	60,828,519	-	50,000	-	(60,778,519)
Noninstructional services	8,667,968	3,492,920	4,278,617	782,926	(113,505)
Interest and other expenses on long-term liabilities	6,819,809	-	-	-	(6,819,809)
Total Governmental Activities	<u>\$ 169,046,381</u>	<u>9,096,747</u>	<u>15,512,469</u>	<u>782,926</u>	<u>(143,654,239)</u>
General Revenues:					
Taxes:					
General purpose levies					41,161,005
Debt purpose levies					12,525,532
Unrestricted grants and contributions:					
State					98,294,516
Federal					655,386
Other					1,099,085
Unrestricted investment earnings					3,775,420
Other					20,469
Total general revenues					<u>157,531,413</u>
Changes in Net Assets					<u>13,877,174</u>
Beginning net assets					134,436,718
Prior period adjustments (Note 9)					<u>(874,433)</u>
Net Assets - Beginning - Restated					133,562,285
Net Assets - Ending					<u>\$ 147,439,459</u>

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

Balance Sheet – Governmental Funds
June 30, 2006

	2005 G O			Total Governmental Funds
	General Fund	Bond Series C Construction Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 13,138,502	\$ 1,915,092	\$ 16,610,453	\$ 31,664,047
Investments	-	27,805,514	5,155,744	32,961,258
Due from other governments	2,101,938	-	1,860,858	3,962,796
Due from other funds	31,858,866	154,642	5,659,402	37,672,910
Inventories and prepaid items	-	-	91,291	91,291
Total assets	<u>\$ 47,099,306</u>	<u>\$ 29,875,248</u>	<u>\$ 29,377,748</u>	<u>\$ 106,352,302</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 932,272	\$ 9,614,469	\$ 967,865	\$ 11,514,606
Due to other funds	9,611,552	20,688,242	11,673,425	41,973,219
Deferred revenue	-	-	68,867	68,867
Total liabilities	<u>10,543,824</u>	<u>30,302,711</u>	<u>12,710,157</u>	<u>53,556,692</u>
Fund balances:				
Reserved for:				
Inventory	-	-	91,291	91,291
Debt service funds	-	-	6,334,730	6,334,730
Unemployment benefits	-	-	456,000	456,000
Undesignated, reported in:				
General fund	36,555,482	-	-	36,555,482
Special revenue funds	-	-	3,415,607	3,415,607
Capital project funds	-	(427,463)	6,369,963	5,942,500
Total fund balances	<u>36,555,482</u>	<u>(427,463)</u>	<u>16,667,591</u>	<u>52,795,610</u>
Total liabilities & fund balances	<u>\$ 47,099,306</u>	<u>\$ 29,875,248</u>	<u>\$ 29,377,748</u>	<u>\$ 106,352,302</u>

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

*Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006*

	<u>Amount</u>
Total Fund Balances - Government Funds	\$ 52,795,610
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$37,284,261.	258,791,351
2. Other long-term assets (bond issue costs) are not available to pay for current expenditures and therefore are deferred in the funds.	894,818
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(163,235,413)
4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(1,245,943)
5. Bond premiums, bond discounts and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but as a liability and contra-liability on the statement of net assets.	<u>(560,964)</u>
Total Net Assets	<u>\$ 147,439,459</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the year ended June 30, 2006

	2005 G O			Total Governmental Funds
	General Fund	Bond Series C Construction Fund	Other Governmental Funds	
REVENUE				
Local sources	\$ 48,220,559	\$ 1,731,098	\$ 17,706,132	\$ 67,657,789
State sources	98,774,837	-	2,442,721	101,217,558
Federal sources	604,530	-	13,423,209	14,027,739
Total revenues	147,599,926	1,731,098	33,572,062	182,903,086
EXPENDITURES				
Instruction	84,059,497	-	8,435,491	92,494,988
Support services	49,570,368	3,658,459	6,269,389	59,498,216
Noninstructional services	1,316,524	746,361	6,906,049	8,968,934
Facilities acquisition and construction	654,277	68,124,073	32,855,628	101,633,978
Debt Service:				
Principal	-	-	8,725,000	8,725,000
Interest	-	-	6,503,934	6,503,934
Other	-	-	160,150	160,150
Total expenditures	135,600,666	72,528,893	69,855,641	277,985,200
Excess (deficiency) of revenues over expenditures	11,999,260	(70,797,795)	(36,283,579)	(95,082,114)
Proceeds of certificates of participation	-	-	8,900,000	8,900,000
Premium on bonds issued	-	-	24,262	24,262
Insurance loss recoveries	16,834	-	3,635	20,469
Sale of transportation equipment	23,542	-	-	23,542
Operating transfers in	1,440,297	-	5,808,947	7,249,244
Other financing sources	286,123	-	-	286,123
Operating transfers out	(3,664,171)	-	(3,585,073)	(7,249,244)
Other financing use	(205,595)	-	(75,991)	(281,586)
Total other financing sources and uses	(2,102,970)	-	11,075,780	8,972,810
Net change in fund balances	9,896,290	(70,797,795)	(25,207,799)	(86,109,304)
Fund balances:				
July 1, 2005, as previously reported	26,659,192	70,370,332	41,831,444	138,860,968
Prior period adj. & reclassifications (Note 9)			(7,878)	(7,878)
July 1, 2005, as restated	26,659,192	70,370,332	41,823,566	138,853,090
Increase (decrease) in reserve for inventory			51,824	51,824
June 30, 2006	\$ 36,555,482	\$ (427,463)	\$ 16,667,591	\$ 52,795,610

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

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2006**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (86,109,304)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$105,502,871, the depreciation expense amounted to \$5,084,174, and book value of assets retired & adjustments was \$47,537.	100,371,160
2. Proceeds of long-term liabilities are reported as revenue in the governmental funds, but not in the statement of activities.	(8,900,000)
3. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activities. Bond premiums, discounts, and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but are deferred and amortized in the statement of activities.	(8,575) 79,914
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 Activities.	8,725,000
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased (increased) in the statement of activity.	51,824
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(81,519)
Net accrued interest on bonds payable	(251,326)
Change in Net Assets of Governmental Activities	<u>\$ 13,877,174</u>

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

Statement of Fiduciary Net Assets
June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 3,462,558
Due from other governments	168,985
Due from other funds	<u>4,300,309</u>
Total Assets	<u>\$ 7,931,852</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 7,760,278
Due to student clubs	<u>171,574</u>
Total Liabilities	<u>\$ 7,931,852</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

1. Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

The DeSoto County Schools Leasing Authority, Inc. ("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 the school district's five-member 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, improvements, 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 government-wide financial statements of the school district. (see Note 12)

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds 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.

2005 G O Bond Series C Construction Fund - This is a capital projects fund which received the proceeds of the 2005 G O Bond and is paying for new school construction.

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

Additionally, the school district reports the following fund types:

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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.

FUDICIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2006 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U. S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

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

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

Fund Financial Statements:

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

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

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

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

P. Changes in Accounting Standards

As required, the DeSoto County School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

2. Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$31,664,047 and \$3,462,558, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$31,664,047. The bank balance was \$38,322,084

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$38,322,084 was exposed to custodial credit risk.

Investments

As of June 30, 2006, the district had the following investments. Investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Mississippi Education Investment Pool	less than 1	<u>\$ 32,961,258</u>	unrated

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 17-105-33(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.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had all of its investments in the Mississippi Educational Investment Pool.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

3. Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	Due From	Due To
Major funds:		
General fund	\$ 31,858,866	\$ 9,611,552
Other major fund		
2005 G O bond series C const fund	154,642	20,688,243
Other governmental funds	5,659,402	11,673,424
Fiduciary funds	4,300,309	
Total Funds	41,973,219	41,973,219

“Due from’s” consist primarily of approximately \$28,600,000 due from capital projects to the general fund and \$2,300,000 due from capital projects to other capital projects for construction advances, and \$2,000,000 due to the general fund for year end fund loans. Fiduciary funds “due from” is primarily for payment of the final payroll liabilities due under the teacher contracts to be paid in July 2006.

B. Transfers In/Out

	Transfers In	Transfers Out
Major funds:		
General fund	\$ 1,440,297	\$ 3,664,171
Other governmental funds	5,808,947	3,765,073
Total Funds	7,249,244	7,429,244

Transfers out consists primarily of approximately \$2,000,000 transferred from EEF buildings and buses to debt service, and \$1,200,000 from capital projects to the general fund, and transfers out of the general fund of \$2,300,000 to vocational education, \$400,000 to the technology in the classroom fund and \$750,000 to debt service.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

4. Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2006
Non-depreciable capital assets:						
Land	\$ 10,400,715	\$ 39,494	\$ 2,244	\$ -	\$ (27,100)	\$ 10,410,865
Construction in progress	38,905,498	100,974,364	-	(26,745,779)	(839,455)	112,294,628
Total non-depreciable capital assets	<u>49,306,213</u>	<u>101,013,858</u>	<u>2,244</u>	<u>(26,745,779)</u>	<u>(866,555)</u>	<u>122,705,493</u>
Depreciable capital assets:						
Buildings	121,277,490	-	-	19,669,003	-	140,946,493
Building improvements	1,360,056	-	-	3,287,689	-	4,647,745
Improvements other than buildings	1,933,926	357,894	-	3,789,087	-	6,080,907
Mobile equipment	13,276,589	2,933,808	389,565	-	-	15,820,832
Furniture and equipment	4,811,162	1,197,311	134,331	-	-	5,874,142
Total depreciable capital assets	<u>142,659,223</u>	<u>4,489,013</u>	<u>523,896</u>	<u>26,745,779</u>	<u>-</u>	<u>173,370,119</u>
Less accumulated depreciation for:						
Buildings	23,398,927	2,759,560	-	-	-	26,158,487
Building improvements	108,767	185,910	-	-	-	294,677
Improvements other than buildings	426,826	243,237	-	-	-	670,063
Mobile equipment	6,067,162	1,234,282	345,615	-	-	6,955,829
Furniture and equipment	2,677,008	661,185	132,988	-	-	3,205,205
Total accumulated depreciation	<u>32,678,690</u>	<u>5,084,174</u>	<u>478,603</u>	<u>-</u>	<u>-</u>	<u>37,284,261</u>
Total depreciable capital assets, net	<u>109,980,533</u>	<u>(595,161)</u>	<u>45,293</u>	<u>26,745,779</u>	<u>-</u>	<u>136,085,858</u>
Governmental activities capital assets, net	<u>\$ 159,286,746</u>	<u>\$ 100,418,697</u>	<u>\$ 47,537</u>	<u>\$ -</u>	<u>\$ (866,555)</u>	<u>\$ 258,791,351</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 238,749
Support services	4,422,989
Non-instructional	<u>422,436</u>
Total depreciation expense	<u>\$ 5,084,174</u>

The capital assets above include significant amounts of land, buildings, 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.

The reduction adjustment of \$839,455 to construction in progress was for the prior year inclusion of two payments to DeSoto County Regional Utility Authority (DCRUA) for construction of sewer lines to DeSoto County Schools property. These lines were bid out by DCRUA, and will be maintained by DCRUA; therefore, these payments should have been

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

expensed in the prior year on the Government-Wide Financial Statements, rather than included as Construction-in-Progress. The land reduction adjustment of \$27,100 was to remove land that had been sold in the past and not removed from the General Fixed Assets inventory.

Commitments under construction contracts at June 30, 2006, are summarized as follows:

<u>Project</u>	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
SHS Site Improvements	\$ 2,304,915	\$ 2,304,915
DeSoto South Mid/High	810,526	810,526
New Horn Lake High	1,395,980	1,395,980
DeSoto East Mid/High	1,194,710	1,194,710
New Hernando Elementary	508,736	508,736
New Olive Branch Elementary	264,092	264,092
DeSoto West Middle School	596,373	596,373
New Southaven High School	4,086,479	4,086,479
Hernando High Classroom Add	108,612	108,612
	<u>\$ 11,270,423</u>	<u>\$ 11,270,423</u>

5. Long-Term liabilities.

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>	<u>Amounts due within one year</u>
A. General Obligation Bonds	\$ 127,240,000	\$ -	\$ 6,340,000	\$ 120,900,000	\$ 7,710,000
B. Certificates of Participation	19,460,000	8,900,000	1,810,000	26,550,000	1,845,000
C. Three mill-ten year notes Payable	15,375,000	-	575,000	14,800,000	600,000
D. Compensated Absenses Payable	903,894	81,519	-	985,413	-
Total	<u>\$ 162,978,894</u>	<u>\$ 8,981,519</u>	<u>\$ 8,725,000</u>	<u>\$ 163,235,413</u>	<u>\$ 10,155,000</u>

The following is a summary of changes in bond premiums, discounts, loss on bond redemption, and bond costs:

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>
Bond Premiums	\$ (1,681,271)	\$ (24,262)	\$ (149,932)	\$ (1,555,601)
Bond Discounts	136,145	71,200	16,484	190,861
Loss on Bond Redemption	904,248	-	100,472	803,776
Total	<u>\$ (640,878)</u>	<u>\$ 46,938</u>	<u>\$ (32,976)</u>	<u>\$ (560,964)</u>
	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>
Bond Issuance Costs	<u>\$ 903,393</u>	<u>\$ 75,298</u>	<u>\$ 83,873</u>	<u>\$ 894,818</u>

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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:

	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds					
Series 2002	2.00-5.00%	10/15/2002	2/1/2014	\$ 23,015,000	\$ 18,835,000
General Obligation Bond A					
Series 2004	3.50-5.00%	8/10/2004	5/1/2016	36,000,000	27,220,000
General Obligation Bond B					
Series 2004	3.25-4.00%	8/10/2004	5/1/2014	4,000,000	2,845,000
General Obligation Bond C					
Series 2005	3.50-5.00%	6/1/2005	5/1/2019	75,000,000	72,000,000
Total				<u>\$ 138,015,000</u>	<u>\$ 120,900,000</u>

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

Year Ending June 30	Principal	Interest	Total
2,007	\$ 7,710,000	\$ 4,884,093	\$ 12,594,093
2,008	9,030,000	4,603,568	13,633,568
2,009	7,665,000	4,249,668	11,914,668
2,010	9,125,000	3,985,981	13,110,981
2,011	9,820,000	3,604,206	13,424,206
2012-2016	45,550,000	11,575,232	57,125,232
2017-2020	32,000,000	2,493,750	34,493,750
Total	<u>\$ 120,900,000</u>	<u>\$ 35,396,498</u>	<u>\$ 156,296,498</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness equal to 10% of property assessments as of October 1, 2005. This debt will be retired from the General Obligation Bond Retirement Fund.

B. Certificates of Participation Payable

As more fully explained in Note 12, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2004 Certificate of Participation	various	12/1/2004	12/1/2019	\$ 20,120,000	\$ 18,115,000
2005 Certificate of Participation	various	7/1/2005	6/1/2020	8,900,000	8,435,000
Total				\$ 29,020,000	\$ 26,550,000

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

Year Ending June 30	Principal	Interest	Total
2,007	\$ 1,845,000	\$ 940,734	\$ 2,785,734
2,008	1,895,000	895,850	2,790,850
2,009	1,940,000	846,544	2,786,544
2,010	1,810,000	791,796	2,601,796
2,011	1,665,000	740,041	2,405,041
2012-2016	9,255,000	2,776,262	12,031,262
2017-2020	8,140,000	697,256	8,837,256
Total	\$ 26,550,000	\$ 7,688,483	\$ 34,238,483

This debt will be retired from the General Fund and the EEF Building and Bus Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2002 Limited Tax Notes	3.90-5.50%	7/01/2002	4/01/2022	\$16,450,000	\$14,800,000

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

Year Ending June 30	Principal	Interest	Total
2,007	\$ 600,000	\$ 683,463	\$ 1,283,463
2,008	650,000	650,463	1,300,463
2,009	675,000	614,713	1,289,713
2,010	725,000	584,338	1,309,338
2,011	750,000	556,063	1,306,063
2012-2016	4,400,000	2,280,812	6,680,812
2017-2021	5,675,000	1,178,813	6,853,813
2,022	1,325,000	66,250	1,391,250
Total	\$ 14,800,000	\$ 6,614,915	\$ 21,414,915

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

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

D. Compensated absences payable.

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

6. Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the DeSoto County School District is required to contribute at an actuarially determined rate. The current rate is 10.75% 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, 2006, 2005, and 2004 were \$9,835,171, \$7,904,501, and \$6,271,990, respectively, which equaled the required contributions for each year.

7. Other Commitments.

Commitments under construction contracts are described in Note 4.

Commitments under re-roofing and renovation contracts amount to \$2,740,453.

Operating leases:

The school district has several operating leases for the following:

1. Xerox Pro 65 copier
2. Xerox Pro 75 copier
3. Xerox Pro 90 copier

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

Lease expenditures for the year ended June 30, 2006 amounted to \$49,976. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	49,976
2008	47,274
2009	<u>14,625</u>
Total	<u>\$ 111,875</u>

8. Deficit Fund Balance of Individual Funds.

A generic fund type listing of the individual funds that have a deficit fund balance, including amounts of the deficit, is as follows:

<u>Individual Fund</u>	<u>Amount</u>
2005 G O Bond Series C Construction Fund	\$ (427,463)

The deficit fund balances are not in violation of state law. These deficits could have been eliminated with a transfer from the District Maintenance Fund (General Fund). This deficit balance resulted from auditor's adjustments.

9. Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Reduction to construction-in-progress. (Also see General Fixed Asset Note 4)	\$(839,455)
2. Reduction to land (Also see General Fixed Asset Note 4)	(27,100)
3. Reduction to School Nurse Grant – To repay money not used	<u>(7,878)</u>
	<u>\$(874,433)</u>

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

Major funds:	<u>Explanation</u>	<u>Amount</u>
1. Reduction to Other governmental funds	See explanation for Exhibit B	<u>\$(7,878)</u>

10. Litigation.

The DeSoto County School District is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be a material adverse effect on the combined financial statements as a result of the cases presently in progress.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

11. Risk Management.

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

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 119 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 Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, 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.

Participation in Self Insurance Trust

The school district established a self-insurance trust in July 2004 which pays the first \$50,000 of property and liability claims against the district. An initial \$150,000 was deposited into the trust account, and is evaluated each year for the proper amount to be replaced. An additional \$117,821 was transferred to the fund during fiscal year end 2006. The district had no year end liability because cash on deposit in the trust of \$159,538 (reported on the balance sheet in other governmental funds) exceeded the unpaid claims.

12. Trust Certificates.

A trust agreement dated December 1, 2004 was executed by and between the school district and Trustmark National Bank as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$20,120,000. Approximately \$19,906,041 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"). The remainder of approximately \$213,959 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss Code Ann. (1972). The lease represents a capital lease under which

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provide in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

13. Special Items

On March 30, 2006, the Superintendent signed IRS Form 8283 showing that the DeSoto County School District received a bargain sale from I55 88 Property on March 25, 2005. This sale was for 22 acres on Rasco Road adjacent to Southaven High School. A taxpayer must have an appraisal and a signed Form 8283 in order to claim a donation over \$5,000. The bargain purchase price was \$550,000, \$15,500 less than the average of two appraisals for the property obtained by DeSoto County School District. The amount of the fair market value claimed on Form 8283 was \$2,560,000. A letter was obtained from the State of Mississippi Attorney General's office giving an opinion that the School District had authority to sign this form. The attorney general's letter also states, "The form does not constitute an acknowledgment or representation by the buyer/donee of the value of the property or of the fact that it constitutes adonation." The 8283 states at the bottom, "This acknowledgment does not represent agreement with the claimed fair market value."

14. Concentrations.

Vendors comprising at least ten percent of total expenditures are usually considered major vendors. Webb Building Corporation was a major vendor of DeSoto County School District during fiscal year 2006 with \$54,936,427 in invoices. This was approximately 20% of total expenditures.

15. Subsequent Events.

The Board approved a bid on July 3, 2006 for \$8,768,888 for the contract for construction of the new Lake Comorant Elementary School. On August 7, 2006, the Board approved issuance of notes for \$33,000,000 for purchasing school buses, transportation equipment, constructing, renovating and equipping schools, and on October 2, 2006, they authorized the issuance of \$24,175,000 of the \$33,000,000.

DESOTO COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 46,004,600	\$ 47,877,225	\$ 48,220,559	\$ 1,872,625	\$ 343,334
State sources	94,246,776	95,105,322	98,774,837	858,546	3,669,515
Federal sources	200,000	200,000	604,530	-	404,530
Total Revenues	<u>140,451,376</u>	<u>143,182,547</u>	<u>147,599,926</u>	<u>2,731,171</u>	<u>4,417,379</u>
Expenditures:					
Instruction	85,675,216	88,843,732	84,059,497	(3,168,516)	4,784,235
Support services	53,307,039	55,757,885	49,570,368	(2,450,846)	6,187,517
Noninstructional services	1,352,550	1,346,432	1,316,524	6,118	29,908
Facilities acquisition and construction	2,185,347	668,348	654,277	1,516,999	14,071
Total Expenditures	<u>142,520,152</u>	<u>146,616,397</u>	<u>135,600,666</u>	<u>(4,096,245)</u>	<u>11,015,731</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,068,776)</u>	<u>(3,433,850)</u>	<u>11,999,260</u>	<u>(1,365,074)</u>	<u>15,433,110</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	-	-	16,834	-	16,834
Sale of transportation equipment	-	-	23,542	-	23,542
Operating transfers in	8,030,661	7,719,650	1,440,297	(311,011)	(6,279,353)
Other financing sources	-	-	286,123	-	286,123
Operating transfers out	(13,949,746)	(13,610,935)	(3,664,171)	338,811	9,946,764
Other financing uses	-	-	(205,595)	-	(205,595)
Total Other Financing Sources (Uses)	<u>(5,919,085)</u>	<u>(5,891,285)</u>	<u>(2,102,970)</u>	<u>27,800</u>	<u>3,788,315</u>
Net Change in Fund Balances	<u>(7,987,861)</u>	<u>(9,325,135)</u>	<u>9,896,290</u>	<u>(1,337,274)</u>	<u>19,221,425</u>
Fund Balances:					
July 1, 2005	25,056,500	26,471,500	26,659,192	1,415,000	187,692
July 1, 2005, as restated	<u>25,056,500</u>	<u>26,471,500</u>	<u>26,659,192</u>	<u>1,415,000</u>	<u>187,692</u>
Residual equity transfer in (out)	-	-	-	-	-
June 30, 2006	<u>\$ 17,068,639</u>	<u>\$ 17,146,365</u>	<u>\$ 36,555,482</u>	<u>\$ 77,726</u>	<u>\$ 19,409,117</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

1. Basis of Presentation.

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

2. Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the general fund consistent with accounting principles generally accepted in the United States of America.

3. Individual Fund Disclosures.

Individual funds that have an excess of expenditures over budget, including amounts of the excess, are as follows:

<u>Individual Fund</u>	<u>Amount</u>
Alternative School	\$ 1,586
Displaced Student Grant	\$ 326,865
Displaced Student Special Education	\$ 93,805

All the funds listed above are in violation of state law. However, the school district has no liability associated with these violations.

SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 396,222
Child nutrition cluster:		
School breakfast program	10.553	350,754
National school lunch program	10.555	3,393,098
Summer food service program for children	10.559	12,484
Total child nutrition cluster		<u>3,756,336</u>
Fresh fruit and vegetable program	10.582	74,438
Total U.S. Department of Agriculture		<u>4,226,996</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	326,788
Total Federal Communications Commission		<u>326,788</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,508,851
Vocational education - basic grants to states	84.048	147,851
Safe and drug-free schools and communities - state grants	84.186	111,258
State grants for innovative programs	84.298	77,685
Education technology state grants	84.318	98,968
English language acquisition grants	84.365	154,050
Improving teacher quality - state grants	84.367	796,896
Grants for state assessments and related activities	84.369	7,280
Hurricane education recovery act programs	84.938	1,013,670
Total		<u>4,916,509</u>
Special education cluster:		
Special education - grants to states	84.027	4,227,085
Special education - preschool grants	84.173	148,177
Total		<u>4,375,262</u>
Total passed-through Mississippi Department of Education		<u>9,291,771</u>
Total U.S. Department of Education		<u>9,291,771</u>
Total for All Federal Awards		<u>\$ 13,845,555</u>

NOTES TO SCHEDULE

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

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds
For the Year Ended June 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 120,739,985	\$ 83,988,253	\$ 10,457,128	\$ 6,739,983	\$ 19,554,621
Other	<u>157,245,215</u>	<u>11,436,477</u>	<u>972,030</u>	<u>376,177</u>	<u>144,460,531</u>
Total	\$ 277,985,200	\$ 95,424,730	\$ 11,429,158	\$ 7,116,160	\$ 164,015,152
Total number of students	27,100	27,100	27,100	27,100	27,100
Cost per student	<u>\$ 10,258</u>	<u>\$ 3,521</u>	<u>\$ 422</u>	<u>\$ 263</u>	<u>\$ 6,052</u>

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

Instruction and Other Student Instructional Expenditures - 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, 2100, 2200 function codes)

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300's) and Support Services - Business (2500's).

School Administration - includes expenditures for the following functions: Support Services - School Administration (2400s);

Other - includes all expenditure functions not included in Instruction or Administration Categories.

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DESOTO COUNTY SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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WILLIAMS * PITTS * BEARD, PLLC

CHARTERED ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2006, which collectively comprise the DeSoto County School District's basic financial statements and have issued our report thereon dated November 27, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 2006-1, and 2006-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Continued...

Continued...

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 27, 2006 which is included in this report.

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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
November 27, 2006



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

Compliance

We have audited the compliance of the DeSoto County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, DeSoto County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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Continued...

Internal Control Over Compliance

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

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

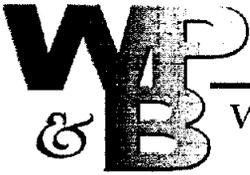
This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report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

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November 27, 2006



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

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2006, which collectively comprise DeSoto County School District's basic financial statements and have issued our report thereon dated November 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States..

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 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 \$359,752 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

Section 31-6-15, Miss. Code Ann (1972) requires board members to have a current surety bond of \$50,000. As of June 30, 2006, one board member did not have a current surety bond.

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Recommendation

Controls should be established to ensure that all required surety bonds are kept current

Response

The Business Manager will request a monthly status report of surety bonds from the staff accountant responsible for the bonds.

2. Finding

Section 25-11-127 Miss. Code Ann (1972) issues guidance on reemployment of retired persons. A retiree can be hired as an employee for not more than one-half of the normal working days and receive no more than one-half the salary. From a sample of retirees employed by DeSoto County School District, there was one instance of a car allowance of \$720 paid to a retiree which put him over the one-half salary amount.

Recommendation

Controls should be established to ensure that retired persons do not go over the salary cap for that position.

Response

An adjustment has been made to PERS regarding the salary of the retired individual in question and the situation remedied. This was an oversight on the payroll manager's part due to the fact that the new accounting system handles car allowances as non-cash allowances. All forms of salary and allowances will be taken into account in the future for retirees.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

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.

Williams, Pitts & Beard, PLLC

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Certified Public Accountants
November 27, 2006

DESOTO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2006**

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified

2. Material noncompliance relating to the financial statements? No

3. Internal control over financial reporting:
 - a. Material weakness(es) identified? No

 - b. Reportable condition(s) identified that are not considered to be material weaknesses? Yes

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified

5. Internal control over major programs:
 - a. Material weakness (es) identified? No

 - b. Reportable condition(s) identified that are not considered to be material weaknesses? No

6. Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? No

7. Federal programs identified as major programs:
 - a. Title I grants to local educational agencies
CFDA#84.010
 - b. Special education cluster
CFDA #84.027
CFDA #84.173

**DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2006**

- c. Improving teacher quality – state grants
CFDA#84.367
- d. Hurricane education recovery act program
CFDA #84.938
- e. The schools and libraries program of the universal service fund
CFDA #32.XXX

8. The dollar threshold used to distinguish between type
A and type B programs: \$300,000

9. Auditee qualified as a low-risk auditee? No

10. Prior fiscal year audit prior finding(s) and questioned cost
relative to federal awards which would require the
auditee to prepare a summary schedule of prior audit
findings as discussed in Section ____ .315(b) of
OMB Circular A-133? No

Section 2: Findings Related to the Financial Statements

Reportable Conditions:

2006-1 Finding

The Fair Labor Standard Act (FLSA) requires that most employees in the United States be paid at least the federal minimum wage for all hours worked and overtime pay at time and one-half the regular rate of pay for all hours worked over 40 hours in a workweek. However, the FLSA provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees, and also certain computer employees. DeSoto County School District informed us they had been using time sheets on an honor system for their 3,000+ employees, and had not distinguished all of their exempt and non-exempt employees.

Recommendation

We recommend that the District take steps to distinguish all exempt and non-exempt employees and provide a more reliable means of gathering time information for employees.

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2006

2006-2 Finding

Financial statements for FY05 contained a Due from Other Governments amount of \$162,897 which was due from the Internal Revenue Service for an overpayment on 941 taxes. As of the date of this report, this money had not been received or credit issued.

Recommendation

The DeSoto County School District should contact the Internal Revenue Service and get their money refunded before the Statute of Limitations expires on this amount.

Section 3: Findings Related to Federal Awards

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

AUDITEE'S CORRECTIVE ACTION PLAN

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DeSoto County Schools

Milton Kuykendall
SUPERINTENDENT OF EDUCATION

5 EAST SOUTH STREET
HERNANDO, MISSISSIPPI 38632
662-429-5271
662-895-3434
901-523-0139
FAX 662-429-4198

Financial & Compliance Audit Division

As required by Section ____ .315 (c) of OMB Circular A-133, the DeSoto County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

Finding
2006-1

Corrective Action Plan

a. Name(s) of Contact Person(s) Responsible for Corrective Action:

Ken Reid, Assistant Superintendent of Finance 662-429-5271
Stacey Graves, Business Manager 662-429-5271

b. Corrective Action Planned:

The District has designated exempt and non-exempt employees. All non-exempt employees are paid on an hourly basis. Currently, the District is keeping manual time records. The District has purchased and is currently implementing the KRONOS biometric time clocks to automate the time keeping process and produce accurate time records.

c. Anticipated Completion Date : June 30, 2007

2006-2

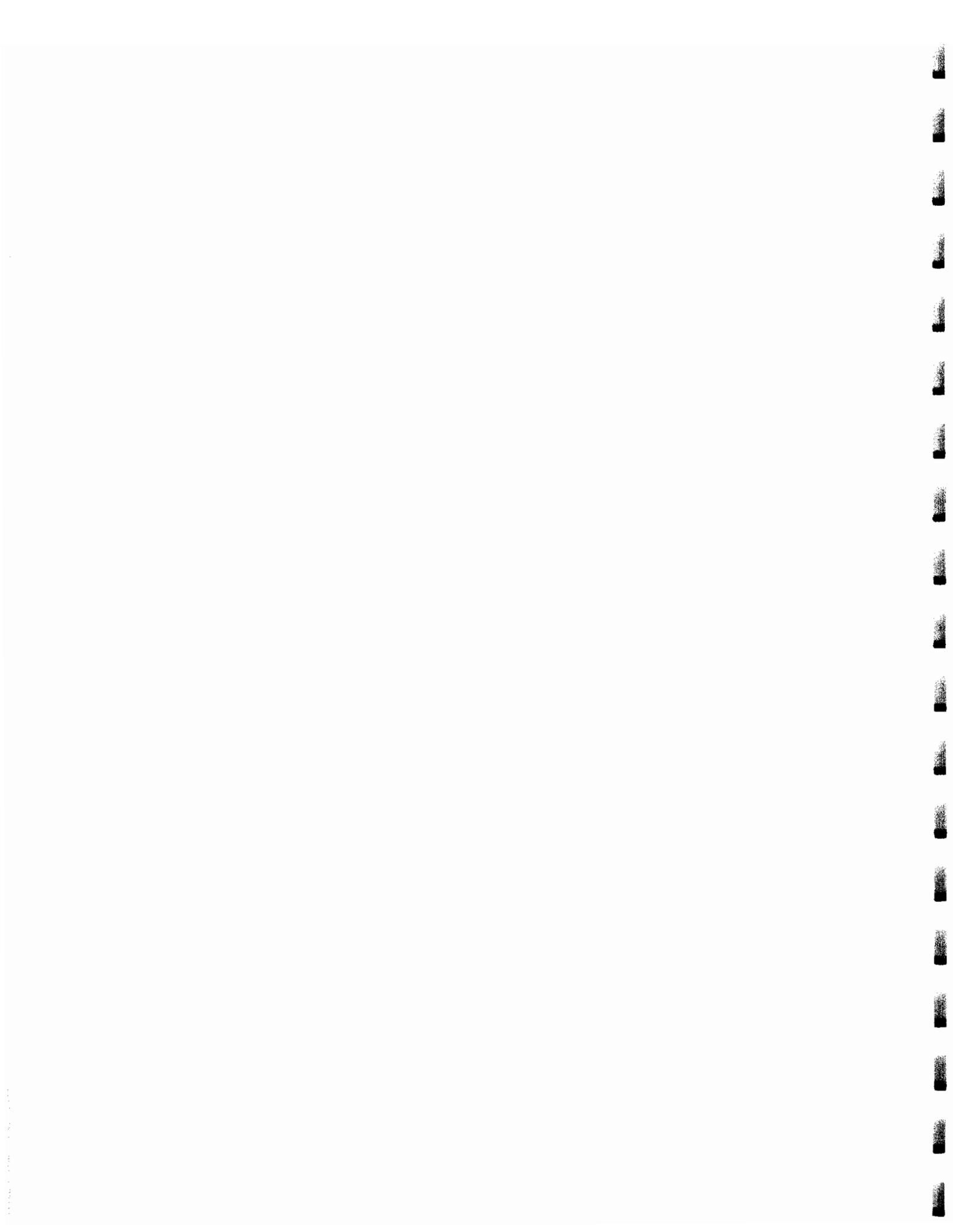
Corrective Action Plan

a. Name(s) of Contact Person(s) Responsible for Corrective Action:

Ken Reid, Assistant Superintendent of Finance 662-429-5271
Stacey Graves, Business Manager 662-429-5271

b. Corrective Action Planned

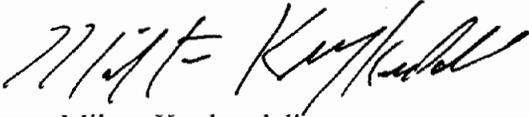
The Internal Revenue Service has withheld an overpayment of taxes since the FY05 fiscal year stating that they are missing the second page of our third quarter 941. We have spoken with the IRS and they assure us they will release the funds if we re-send the missing page again. We have mailed the letter certified return



receipt. If we do not have an answer by January 31st, we will have the board attorney take action.

c. Anticipated Date Completion Date: January 31, 2007

Sincerely Yours,

A handwritten signature in black ink, appearing to read "Milton Kuykendall". The signature is written in a cursive style with a large initial "M".

Milton Kuykendall
Superintendent

