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LAMAR COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2005



**Nicholson &
Company, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS/FINANCIAL CONSULTANTS

LAMAR COUNTY SCHOOL DISTRICT

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

Superintendent and School Board
Lamar County School District
Purvis, Mississippi

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

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

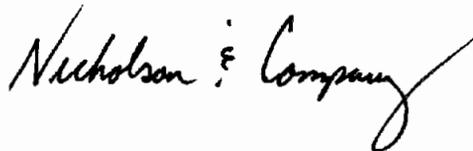
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lamar County School District, as of June 30, 2005, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Superintendent and School Board
Lamar County School District
Purvis, Mississippi

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2005, on our consideration of the Lamar County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Schedule and corresponding notes on pages 46 through 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Hattiesburg, Mississippi
September 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAMAR COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Lamar County School District's financial performance provides an overall narrative review of the School District's financial activities for the years ended June 30, 2005 and June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets for the school district at June 30, 2005 and 2004 were \$25,543,046 and \$23,237,626, respectively.

General revenues accounted for \$41,316,291 and \$37,573,414 in revenue, or 84.40% and 82.50% of all revenues for the years ended June 30, 2005 and 2004, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,635,155 and \$7,970,522 or 15.60% and 17.50% of total revenues for the years ended June 30, 2005 and 2004, respectively.

For the years ended June 30, 2005 and 2004, the District had \$46,725,185 and \$43,616,764 in expenses; only \$7,635,155 and \$7,970,522 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$41,316,291 and \$37,573,414 were adequate to provide for these programs.

Among major funds, the General Fund had \$38,441,363 and \$35,799,156 in revenues and \$36,177,354 and \$34,140,660 in expenditures for the years ended June 30, 2005 and 2004, respectively. The General Fund's fund balance increased \$1,147,524 from June 30, 2004 to June 30, 2005. This increase was due to increased revenues not budgeted and savings on salaries and benefits originally budgeted.

Capital assets, net of accumulated depreciation, increased by \$271,853 from June 30, 2004 to June 30, 2005. This increase after current year depreciation and completed construction in progress is due to current year acquisitions.

Long-term debt increased by \$42,076,932 from June 30, 2004 to June 30, 2005. This increase resulted from the issuance of \$43,000,000 in general obligation bonds to be used for construction of new schools.

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 10 - 12 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 17 - 18, respectively.

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

The basic governmental fund financial statements can be found on pages 13 and 15 - 16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Net Assets – Fiduciary Funds on page 19.

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 20 - 45 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 46 - 48 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 49 - 51 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 \$25,543,046 and \$23,237,626 as of June 30, 2005 and 2004, respectively.

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

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

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>
Current assets	\$ 58,424,109	\$ 14,550,329
Capital assets, net	<u>26,925,496</u>	<u>26,653,643</u>
Total assets	<u>85,349,605</u>	<u>41,203,972</u>
Current liabilities	1,304,336	1,541,055
Long-term debt outstanding	<u>58,502,223</u>	<u>16,425,291</u>
Total liabilities	<u>59,806,559</u>	<u>17,966,346</u>
Net assets:		
Invested in capital assets, net of related debt	11,834,950	10,623,636
Restricted	11,776,448	11,892,632
Unrestricted	<u>1,931,648</u>	<u>721,358</u>
Total net assets	<u>\$ 25,543,046</u>	<u>\$ 23,237,626</u>

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

The principal retirement of \$939,461 of long-term debt.

The inception of \$43,000,000 in General Obligation Bonds.

Construction in progress at June 30, 2005 totaled \$534,850 for the construction of new schools throughout the district.

The District added \$968,069 for athletic facilities which were not included in construction in progress at June 30, 2004.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2005 and June 30, 2004 were \$48,951,446 and \$45,543,936, respectively. The total cost of all programs and services was \$46,725,185 and \$43,616,764 for the fiscal years ended June 30, 2005 and June 30, 2004, respectively. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>
Revenues:		
Program revenues	\$ 7,635,155	\$ 7,970,522
General revenues	41,316,291	37,573,414
Total revenues	<u>48,951,446</u>	<u>45,543,936</u>
Expenses:		
Instruction	28,505,829	26,399,443
Support services	14,515,748	13,918,017
Non-instructional	2,587,646	2,248,900
Sixteenth section	64,340	53,941
Interest and other expenses on long-term liabilities	1,051,622	996,463
Total expenses	<u>46,725,185</u>	<u>43,616,764</u>
Increase in net assets	<u>\$ 2,226,261</u>	<u>\$ 1,927,172</u>

Governmental activities. The following table presents the cost of five (5) major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses 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.

June 30, 2005

	<u>Total</u> <u>Expenses</u>	<u>Net (Expense)</u> <u>Revenue</u>
Instruction	\$ 28,505,829	\$ (24,777,796)
Support services	14,515,748	(13,005,799)
Non-instructional	2,587,646	(199,781)
Sixteenth section	64,340	(55,536)
Interest and other expenses on long-term liabilities	1,051,622	(1,051,118)
Total expenses	<u>\$ 46,725,185</u>	<u>\$ (39,090,030)</u>

June 30, 2004

	<u>Total</u> <u>Expenses</u>	<u>Net (Expense)</u> <u>Revenue</u>
Instruction	\$ 26,399,443	\$ (22,597,697)
Support services	13,918,017	(13,707,143)
Non-instructional	2,248,900	1,664,591
Sixteenth section	53,941	(9,530)
Interest and other expenses on long-term liabilities	996,463	(996,463)
Total expenses	<u>\$ 43,616,764</u>	<u>\$ (35,646,242)</u>

Net cost of governmental activities of \$39,090,030 and \$35,646,242 for the years ended June 30, 2005 and June 30, 2004, was financed by general revenue, which is made up of primarily property taxes of \$11,638,221 and \$10,582,000 and state revenue of \$26,709,126 and \$25,132,863 for the years ended June 30, 2005 and June 30, 2004, respectively.

Investment earnings accounted for \$345,459 and \$609,490 of funding for the years ended June 30, 2005 and June 30, 2004, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$56,521,575 as of June 30, 2005 and \$13,129,626 at June 30, 2004, the increase of \$43,391,949 was due primarily to the balance in the General Obligation Construction Fund (due to issuance of bonds) and increased fund balances in district maintenance and Sixteenth Section Interest Fund. \$9,489,414 and \$10,351,647 or 16.79% and 78.84% of the fund balance for the years ended June 30, 2005 and June 30, 2004, respectively, constituted unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$47,032,161 and \$2,777,979 or 83.21% and 21.16% for the years ended June 30, 2005 and June 30, 2004, respectively was reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are inventory, advances, capital projects, and debt service.

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 \$1,226,683 as a result of revenue received in the District Maintenance Fund in excess of budgeted amounts and the savings in salaries and benefits originally budgeted. The increases in fund balance in the Sixteenth Section Interest Fund, General Obligation Bond Construction Fund, and Sixteenth Section Principal Fund were \$338,259, \$42,631,646, and \$462,445, respectively. The fund balance of Other Governmental Funds showed a decrease of \$1,288,770 primarily due to the completion of an athletic facilities project and decrease in the fund balance in child nutrition.

BUDGETARY HIGHLIGHTS

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

Budgeted amounts for revenue from local sources were increased due in part to increased interest earnings on interest-bearing checking accounts.

Budgeted amounts for revenue from state sources were increased due in part to funds received from revenue in lieu of taxes.

Budgeted amounts for revenue from federal sources were increased due in part to increased e-rate reimbursement.

Budgeted amounts for salaries and benefits were decreased due in part to savings on employee insurance and workers compensation premiums.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005 and June 30, 2004, the District's total capital assets were \$39,190,688 and \$37,976,063, respectively, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,214,625 from the previous year. Total accumulated depreciation as of June 30, 2005 and June 30, 2004 was \$12,265,192 and \$11,322,420 and total depreciation expense for the years then ended was \$1,185,279 and \$1,172,949, resulting in total net capital assets of \$26,925,496 as of June 30, 2005 and \$26,653,643 at June 30, 2004.

Additional information of the District's capital assets can be found in Note 4 on pages 32 - 34 of this report.

Debt Administration. At June 30, 2005, the district had \$58,502,223 in general obligation bonds and other long-term debt outstanding, of which \$1,896,557 is due within one year.

The District maintains a BBB bond rating.

Additional information of the District's long-term debt can be found in Note 5 on pages 35 - 42 of this report.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has increased 12% over five (5) years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has increased by 2% over school year 2004-2005. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Lamar County School District, Post Office Box 609 or 300 North Street, Purvis, Mississippi 39475.

BASIC FINANCIAL STATEMENTS

EXHIBIT A

LAMAR COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 49,857,731
Cash with fiscal agents (Note 2)	51
Investments (Note 2)	419,129
Due from other governments	1,577,503
Leases receivable	941,496
Other receivables, net	9,960
Inventories and prepaid items	79,335
Restricted assets (Note 2)	5,538,904
Capital assets, net (Note 4)	26,925,496
Total assets	\$ 85,349,605
LIABILITIES	
Accounts payable and accrued liabilities	\$ 769,776
Due to other governments	33,940
Deferred revenue	291,348
Interest payable on long-term liabilities	209,272
Long-term liabilities (Note 5):	
Due within one year:	
Capital related liabilities	1,896,557
Non-capital related liabilities	-
Due beyond one year:	
Capital related liabilities	56,193,989
Non-capital related liabilities	411,677
Total liabilities	\$ 59,806,559

EXHIBIT A
PAGE TWO

LAMAR COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
NET ASSETS	
Investment in capital assets, net of related debt	\$ 11,834,950
Restricted net assets:	
Expendable:	
School-based activities	2,128,672
Debt service	414,776
Capital improvements	734,837
Forestry improvements	348,813
Unemployment benefits	129,463
Non-expendable:	
Sixteenth section	8,019,887
Unrestricted	1,931,648
Total net assets	<u>\$ 25,543,046</u>

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

EXHIBIT C

LAMAR COUNTY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	General Obligation Bond Construction	Sixteenth Section Principal Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents (Note 2)	\$ 4,167,438	\$ 610,263	\$ 42,957,147	\$ 5,538,904	\$ 2,122,863	\$ 55,386,635
Cash with fiscal agents (Note 2)	-	-	-	-	51	51
Investments (Note 2)	-	-	-	-	419,129	419,129
Due from other governments	957,302	-	-	21,068	599,133	1,577,503
Other receivables	3,439	-	-	-	6,521	9,960
Due from other funds (Note 3)	114,221	-	-	-	31,021	145,242
Advances to other funds (Note 3)	-	-	-	2,459,915	-	2,459,915
Inventories and prepaid items	-	-	-	-	79,335	79,335
Total assets	\$ 5,242,400	\$ 610,263	\$ 42,957,147	\$ 8,019,887	\$ 3,258,073	\$ 60,087,770
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable and accrued liabilities	\$ 118,765	\$ 6,012	\$ 325,501	\$ -	\$ 185,472	\$ 636,750
Due to other funds (Note 3)	31,021	-	-	-	114,221	145,242
Due to other governments	-	33,940	-	-	-	33,940
Advances from other funds (Note 3)	2,459,915	-	-	-	-	2,459,915
Deferred revenue	289,374	-	-	-	1,974	291,348
Total liabilities	2,899,075	39,952	325,501	-	301,667	3,566,195
FUND BALANCES						
Reserved for:						
Inventory	-	-	-	-	79,335	79,335
Advances	-	-	-	2,459,915	-	2,459,915
Capital projects fund	-	-	42,631,646	-	1,103,191	43,734,837
Debt service funds	-	-	-	-	758,074	758,074
Unreserved:						
Undesignated, report in:						
General fund	2,343,325	-	-	-	-	2,343,325
Special revenue fund	-	570,311	-	-	1,015,806	1,586,117
Permanent funds	-	-	-	5,559,972	-	5,559,972
Total fund balances	2,343,325	570,311	42,631,646	8,019,887	2,956,406	56,521,575
Total liabilities and fund balances	\$ 5,242,400	\$ 610,263	\$ 42,957,147	\$ 8,019,887	\$ 3,258,073	\$ 60,087,770

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

EXHIBIT C-1

LAMAR COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Amount</u>
Total fund balance - governmental funds	\$ 56,521,575
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$12,265,192.	26,925,496
2. Interest payable on long-term liabilities is not normally liquidated with current financial resources and therefore are not reported in the funds.	(209,272)
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(58,502,223)
4. Sixteenth section lease payments that are past due are not current available resources and therefore are not reported in the funds.	941,496
5. Payments held in escrow.	<u>(134,026)</u>
<i>Total net assets of governmental activities</i>	<u>\$ 25,543,046</u>

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

EXHIBIT D

LAMAR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	General Obligation Bond Construction	Sixteenth Section Principal Fund	Other Governmental Funds	
REVENUES						
Local sources	\$ 12,554,513	\$ -	\$ 4,112	\$ -	\$ 1,213,391	\$ 13,772,016
State sources	25,653,139	-	-	-	2,284,409	27,937,548
Federal sources	233,711	-	-	-	4,658,333	4,892,044
Sixteenth section sources	-	887,166	-	697,421	17,383	1,601,970
Total revenues	38,441,363	887,166	4,112	697,421	8,173,516	48,203,578
EXPENDITURES						
Instruction	24,097,283	-	-	-	3,628,979	27,726,262
Support services	11,775,535	-	-	-	2,527,929	14,303,464
Non-instruction services	189,828	-	-	-	2,424,805	2,614,633
Sixteenth section	-	50,907	-	-	13,433	64,340
Facilities acquisition and construction	-	-	226,501	-	1,035,193	1,261,694
Debt Service:						
Principal	2,624	-	-	-	936,837	939,461
Interest	110,309	-	-	-	746,891	859,200
Other	1,775	-	153,354	-	6,256	161,385
Total expenditures	36,177,354	50,907	379,855	-	11,322,323	47,930,439
Excess of revenues over (under) expenditures	2,264,009	836,259	(375,743)	697,421	(3,148,807)	273,139
OTHER FINANCING SOURCES (USES)						
Proceeds from issuance of general obligation bonds	-	-	43,000,000	-	-	43,000,000
Payments held by escrow agent	-	-	-	-	134,026	134,026
Sale of other property	2,700	-	-	-	5,246	7,946
Other financing sources	-	-	7,389	-	4,349	11,738
Operating transfers in	2,858,776	-	-	-	2,268,354	5,127,130
Operating transfers out	(3,973,362)	(498,000)	-	(234,976)	(420,792)	(5,127,130)
Other financing uses	(4,599)	-	-	-	(131,146)	(135,745)
Total other financing sources (uses)	(1,116,485)	(498,000)	43,007,389	(234,976)	1,860,037	43,017,965
Net change in fund balances	1,147,524	338,259	42,631,646	462,445	(1,288,770)	43,291,104

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

LAMAR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	General Obligation Bond Construction	Sixteenth Section Principal Fund	Other Governmental Funds	
FUND BALANCES						
July 1, 2004	\$ 1,116,642	\$ 232,052	\$ -	\$ 7,557,442	\$ 4,223,490	\$ 13,129,626
Prior period adjustments	79,159	-	-	-	-	79,159
July 1, 2004, as adjusted	1,195,801	232,052	-	7,557,442	4,223,490	13,208,785
Increase in reserve for inventory	-	-	-	-	21,686	21,686
JUNE 30, 2005	\$ 2,343,325	\$ 570,311	\$ 42,631,646	\$ 8,019,887	\$ 2,956,406	\$ 56,521,575

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

EXHIBIT D-1

LAMAR COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 43,291,104
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 costs over the life of the assets. Capital assets purchased amounted to \$1,517,290 and the depreciation expense amounted to \$1,185,279.	332,011
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities.	(43,000,000)
3. 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.	939,461
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	(26,438)
5. The increase in accrued compensated absences is reported as an increase in expenditures in the statement of activities but is not included as an offset to expenditures of the governmental funds.	(16,393)
6. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	21,686

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

EXHIBIT D-1
PAGE TWO

LAMAR COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

	<u>Amount</u>
7. Sixteenth section lease payments which were due in the current year but remain unpaid are reported as revenues in the statement of activities but are not considered current available resources in the governmental funds.	\$ 747,868
8. The increase in payments remitted to an escrow agent is reflected as a decrease in other financing sources/uses in the governmental funds but is reflected as an increase in payables in the statement of activities.	(2,880)
9. Gains and losses on the disposal of assets are not reported in the governmental funds, but are reported in the statement of activities, net of proceeds.	<u>(60,158)</u>
<i>Change in net assets - governmental activities</i>	<u><u>\$ 2,226,261</u></u>

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

EXHIBIT E

LAMAR COUNTY SCHOOL DISTRICT

**STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 2,480,811
<i>Total assets</i>	<u>\$ 2,480,811</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 2,339,443
Due to student clubs	141,368
<i>Total liabilities</i>	<u>\$ 2,480,811</u>

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

NOTES TO FINANCIAL STATEMENTS

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Lamar County School District have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Government 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 5-member board which each member was elected by the citizens of each defined county district.

The Lamar County Public School Improvement Corporation (the "Corporation") 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 Corporation is governed by a five (5) member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Corporation'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 5.C.).

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.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Fund Financial Statements

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

C. *Measurement Focus and Basis of Accounting*

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

In the fund financial statements, governmental funds 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.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Sixteenth Section Interest Fund – This fund is used to account for the expendable portion of sixteenth section revenues received.

General Obligation Bond Construction Fund – This fund is used to account for the proceeds from the issue of bonds for construction of new schools and the related construction project costs.

Sixteenth Section Principal Fund – This is a permanent fund derived from certain uses or resources of school trust lands which are required to be invested.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of **Exhibit C**.

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FIDUCIARY FUNDS

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

D. Account Classifications

The account classifications used in the financial statements conform to the classifications prescribed in the Financial Accounting Manual for Mississippi Public School Districts issued by the Office of the State Auditor. The classifications in that manual 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 deposit in demand accounts and certificates of deposit with maturities of twelve (12) months or less. Cash and cash equivalents are valued at cost.

G. Investments

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

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

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Inventories and Prepaid Items

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

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

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

I. Capital Assets

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

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

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

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

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. Long-term liabilities should not be reported as liabilities in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets. (See **Note 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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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:

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

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further 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 advances – An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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 capital projects funds – An account that represents that portion of fund balance in the capital projects funds which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

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

M. *Property Taxes*

Ad valorem property taxes are levied by the governing authority of the 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.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

NOTE 2 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS

Cash and Cash Equivalents

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$55,396,635 and \$2,480,811, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and Cash Equivalents \$49,857,731 and Restricted assets \$5,538,904. The Restricted assets represents the cash balance of the Sixteenth Section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$59,260,811.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED JUNE 30, 2005

**NOTE 2 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS
(Cont.)**

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. As of June 30, 2005, the district's bank balance was not exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$51.

Investments

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
U.S. Treasury Bills	less than 1	\$ 143,590	\$ 144,687	AAA
Hancock Horizon Treasury CLA	less than 1	<u>275,539</u>	<u>275,539</u>	AAAm
Total investments		<u>\$ 419,129</u>	<u>\$ 420,226</u>	

Interest Rate Risk

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

Credit Risk

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

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED JUNE 30, 2005

**NOTE 2 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS
(Cont.)**

Custodial Credit Risk - Investments

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover the value of its investments. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, the district's investment balance was not exposed to custodial credit risk.

Concentration of Credit Risk

Disclosures of investments by amount and issuer for any issuer that represents five percent (5%) or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
U.S. Treasury Bills, investment of Athletic Facility Fund	\$ 143,590	34%
Hancock Horizon Treasury CLA, investment of MAEP Retirement Funds	<u>275,539</u>	66%
Total	<u>\$ 419,129</u>	

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE ELEVEN
YEAR ENDED JUNE 30, 2005**

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

	<u>Due From</u>	<u>Due To</u>
A. DUE FROM/TO OTHER FUNDS		
Major funds:		
General fund	\$ 114,221	\$ 31,021
Non-major funds	31,021	114,221
Total funds	<u>\$ 145,242</u>	<u>\$ 145,242</u>
B. ADVANCES TO/FROM OTHER FUNDS:		
Major funds:		
General fund	\$ -	\$ 2,459,915
Sixteenth section principal fund	2,459,915	-
Total funds	<u>\$ 2,459,915</u>	<u>\$ 2,459,915</u>

The receivables represent amounts due to the general fund for short term loans made to other governmental funds. The payables represent amounts due to other governmental funds from the general fund to cover ETF transfers not received from the State of Mississippi prior to year end. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements.

(Note: The sixteenth section principal loans payable is not reflected on the statement of net assets because these funds were borrowed by the General Fund from the sixteenth section trust fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1).

Sixteenth section principal loans payable.

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

(See Table on Next Page)

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED JUNE 30, 2005

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 260,415	\$ 98,397	\$ 358,812
2007	220,000	87,980	307,980
2008	211,250	79,180	290,430
2009	198,750	70,730	269,480
2010	198,750	62,780	261,530
2011 - 2015	887,750	197,720	1,085,470
2016 - 2020	410,000	50,300	460,300
2021 - 2025	73,000	5,800	78,800
Total	\$ 2,459,915	\$ 652,887	\$ 3,112,802

C. TRANSFERS IN/OUT

Major funds:

General fund

\$ 2,858,776

\$ 3,973,362

Sixteenth section interest fund

-

498,000

Sixteenth section principal fund

-

234,976

Non-major funds

2,268,354

420,792

Total funds

\$ 5,127,130

\$ 5,127,130

Transfers are made monthly from the District Maintenance Fund to other funds for operations as federal and state funding for those funds is not sufficient to sustain those funds. Interest earned on other funds within the District Maintenance bank account are transferred back to the District Maintenance Fund for operations. Funds are transferred from Activity Funds at the schools for reimbursements that are paid from the District Maintenance Fund.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE THIRTEEN

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance 7/01/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6/30/2005</u>
Non-depreciable capital assets						
Land	\$ 68,340	\$ -	\$ -	\$ -	\$ -	\$ 68,340
Construction in progress	2,463,139	285,545	-	(2,213,834)	-	534,850
Total non-depreciable capital assets	<u>2,531,479</u>	<u>285,545</u>	<u>-</u>	<u>(2,213,834)</u>	<u>-</u>	<u>603,190</u>
Depreciable capital assets						
Buildings	29,946,928	-	-	-	-	29,946,928
Improvements other than buildings	699,630	968,069	(78,629)	2,213,834	-	3,802,904
Mobile equipment	3,631,899	101,480	(46,242)	-	-	3,687,137
Furniture and equipment	1,136,873	162,196	(177,794)	-	11,284	1,132,559
Leased property under capital leases	29,254	-	-	-	(11,284)	17,970
Total depreciable capital assets	<u>35,444,584</u>	<u>1,231,745</u>	<u>(302,665)</u>	<u>2,213,834</u>	<u>-</u>	<u>38,587,498</u>

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (Cont.)

	Balance 7/01/2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2005
Less accumulated depreciation for:						
Buildings	\$ 8,064,936	\$ 534,283	\$ -	\$ -	\$ -	\$ 8,599,219
Improvements other than buildings	366,478	203,879	(62,903)	-	-	507,454
Mobile equipment	2,175,293	255,277	(38,225)	-	-	2,392,345
Furniture and equipment	705,842	189,298	(141,379)	-	4,788	758,549
Leased property under capital leases	9,871	2,542	-	-	(4,788)	7,625
Total accumulated depreciation	<u>11,322,420</u>	<u>1,185,279</u>	<u>(242,507)</u>	<u>-</u>	<u>-</u>	<u>12,265,192</u>
Total depreciable capital assets, net	<u>24,122,164</u>	<u>46,466</u>	<u>(60,158)</u>	<u>2,213,834</u>	<u>-</u>	<u>26,322,306</u>
Governmental activities capital assets, net	<u>\$ 26,653,643</u>	<u>\$ 332,011</u>	<u>\$ (60,158)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,925,496</u>

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 741,971
Support services	351,397
Non-instructional	<u>91,911</u>
Total depreciation expense	<u>\$ 1,185,279</u>

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

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

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Lamar County Athletic Facilities	\$ 5,045	\$ -
Oak Grove High School Softball Field	<u>3,130</u>	<u>-</u>
Total	<u>\$ 8,175</u>	<u>\$ -</u>

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE SIXTEEN
YEAR ENDED JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES

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

	Balance 7/01/2004	Additions	Reductions	Balance 6/30/2005	Amounts Due Within 1 Year
A. General obligation bonds payable	\$ 2,495,000	\$ 43,000,000	\$ 230,000	\$ 45,265,000	\$ 1,215,000
B. Limited obligation bonds payable	9,960,000	-	450,000	9,510,000	480,000
C. Certificates of participation payable	2,900,000	-	105,000	2,795,000	110,000
D. Obligations under capital leases	127,379	-	96,621	30,758	30,758
E. Obligations under energy efficiency lease	547,628	-	57,840	489,788	60,799
F. Compensated absences payable	395,284	16,393	-	411,677	-
Total	\$ 16,425,291	\$ 43,016,393	\$ 939,461	\$ 58,502,223	\$ 1,896,557

A. GENERAL OBLIGATION BONDS PAYABLE

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Refunding school bonds series 1998	Variable	10/1/1998	7/1/2013	\$ 3,545,000	\$ 2,265,000
General obligation school bonds series 2005	Variable	6/1/2005	6/1/2025	43,000,000	43,000,000
Total				\$ 46,545,000	\$ 45,265,000

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE SEVENTEEN
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,215,000	\$ 1,993,666	\$ 3,208,666
2007	1,300,000	1,949,181	3,249,181
2008	1,395,000	1,901,556	3,296,556
2009	1,500,000	1,833,366	3,333,366
2010	1,605,000	1,759,741	3,364,741
2011 - 2015	9,290,000	7,496,111	16,786,111
2016 - 2020	12,650,000	5,135,694	17,785,694
2021 - 2025	<u>16,310,000</u>	<u>2,191,963</u>	<u>18,501,963</u>
Total	<u>\$ 45,265,000</u>	<u>\$ 24,261,278</u>	<u>\$ 69,526,278</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 15% of property assessments as of October 1, 2004. These debts will be retired from the Series 1998 Refunding Bonds Fund and the Series 2005 Bond Retirement Fund.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE EIGHTEEN
YEAR ENDED JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

B. LIMITED OBLIGATION BONDS PAYABLE

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bond	Variable	3/1/1998	9/1/2018	\$ 11,525,000	\$ 9,510,000
Total				<u>\$ 11,525,000</u>	<u>\$ 9,510,000</u>

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 480,000	\$ 471,974	\$ 951,974
2007	505,000	442,424	947,424
2008	540,000	412,761	952,761
2009	565,000	385,254	950,254
2010	590,000	358,394	948,394
2011 - 2015	3,415,000	1,317,599	4,732,599
2016 - 2020	3,415,000	361,184	3,776,184
2021 - 2025	-	-	-
Total	\$ 9,510,000	\$ 3,749,590	\$ 13,259,590

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

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY
YEAR ENDED JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

C. CERTIFICATES OF PARTICIPATION PAYABLE

As more fully explained in Note 9 certificates of participation have been issued by the school district and are payable by the COP Debt Service Fund. Certificates of participation currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Certificate of Participation Series 2003	3.79%	8/1/2003	8/1/2023	\$ 3,000,000	\$ 2,795,000
Total				<u>\$ 3,000,000</u>	<u>\$ 2,795,000</u>

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-ONE
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 110,000	\$ 107,920	\$ 217,920
2007	115,000	103,846	218,846
2008	120,000	99,582	219,582
2009	125,000	95,129	220,129
2010	130,000	90,486	220,486
2011 - 2015	725,000	376,158	1,101,158
2016 - 2020	865,000	231,285	1,096,285
2021 - 2025	605,000	61,398	666,398
Total	\$ 2,795,000	\$ 1,165,804	\$ 3,960,804

D. OBLIGATIONS UNDER CAPITAL LEASES

The school district has entered into lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of:

1. 25 IBM Computers
2. Konica 7035 Copier
3. 20 IBM Mobile Thinkpads, HP LaserJet Printers and Mobile School 500 Cart
4. 21 Point of Sale Terminals and Horizon Z-Pads, 8 Computers and 2 Cameras
5. 3 Leases – 25 IBM Thinkpads, HP LaserJet Printers and Mobile School Cart

The various options available to the lessee for these leases are as follows:

1. The District may purchase the equipment for \$1.00 at the end of the lease.
2. Title to the equipment passes to the District at the end of the lease.
3. The District may purchase the equipment for \$1.00 at the end of the lease.
4. The District may purchase the equipment for \$1.00 at the end of the lease.
5. Title to the equipment passes to the District at the end of the lease.

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-TWO
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2006	\$ 30,758	\$ 369	\$ 31,127
Total	\$ 30,758	\$ 369	\$ 31,127

This debt will be retired from the General Fund, the Technology in the Classroom Fund, the School Food Service Fund, and the Title I Fund.

E. OBLIGATIONS UNDER ENERGY EFFICIENCY LEASE

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2006	\$ 60,799	\$ 23,109	\$ 83,908
2007	63,910	19,998	83,908
2008	67,180	16,728	83,908
2009	70,617	13,291	83,908
2010	74,229	9,678	83,907
2011 - 2015	153,053	7,770	160,823
Total	\$ 489,788	\$ 90,574	\$ 580,362

An energy efficiency lease agreement dated May 31, 2002, was executed by and between the District, the lessee, and LaSalle Bank National Association, the lessor.

The agreement authorized the borrowing of \$659,245 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed ten (10) years.

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

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-THREE
YEAR ENDED JUNE 30, 2005**

NOTE 5 - LONG-TERM LIABILITIES (Cont.)

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

This debt will be retired from the Energy Conservation Debt Service Fund.

F. COMPENSATED ABSENCES PAYABLE

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

NOTE 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 school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$2,776,416, \$2,571,833, and \$2,330,567, respectively, which equaled the required contributions for each year.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FOUR
YEAR ENDED JUNE 30, 2005

NOTE 7 - SIXTEENTH SECTION LANDS

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 1,491,250
2007	523,425
2008	520,784
2009	519,592
2010	512,751
2011 - 2015	2,517,344
2016 - 2020	2,495,536
2021 - 2025	2,484,049
2026 - 2030	2,367,595
2031 - 2035	1,897,656
2036 - 2040	935,849
2041 - 2045	296,588
Thereafter	37,647
Total	\$ 16,600,066

NOTE 8 - PRIOR PERIOD ADJUSTMENTS/EXHIBITS

Summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities		
<u>Major Funds</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	Correction of error for differences in amounts accrued for Driver's Ed, Refunds, and E-Rate	\$ 79,189
Total		\$ 79,189

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FIVE
YEAR ENDED JUNE 30, 2005**

NOTE 8 - PRIOR PERIOD ADJUSTMENTS/EXHIBITS (Cont.)

Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balances		
Major Funds	Explanation	Amount
General Fund	Correction of error for differences in amounts accrued for Driver's Ed, Refunds, and E-Rate	\$ 79,189
Total		\$ 79,189

NOTE 9 - RISK MANAGEMENT

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

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 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

NOTE 10 - CERTIFICATES OF PARTICIPATION

A trust agreement date August 1, 2003, was executed by and between the school district and Lamar County Public School Improvement Corporation, as trustees.

LAMAR COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-SIX

YEAR ENDED JUNE 30, 2005

NOTE 10 - CERTIFICATES OF PARTICIPATION (Cont.)

The trust agreement authorized the issuance of trust certificates in the principal amount \$3,000,000. Approximately \$2,922,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$78,000 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 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 provided 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.

NOTE 11 - SUBSEQUENT EVENT

Subsequent to year-end, the Lamar County School District facilities were damaged by hurricane Katrina. At the current time, the District cannot determine the exact dollar amount of the damage sustained or the ultimate economic loss that may be experienced by the District after payments are received from insurance carriers and from the Federal Emergency Management Agency.

SCHEDULE 1

LAMAR COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original To Final	Final To Actual
REVENUES					
Local sources	\$ 12,470,715	\$ 12,554,529	\$ 12,554,513	\$ 83,814	\$ (16)
State sources	25,416,680	25,689,387	25,653,139	272,707	(36,248)
Federal sources	269,000	314,444	233,711	45,444	(80,733)
Total revenues	<u>38,156,395</u>	<u>38,558,360</u>	<u>38,441,363</u>	<u>401,965</u>	<u>(116,997)</u>
EXPENDITURES					
Instruction	24,717,491	24,112,753	24,097,283	604,738	15,470
Support services	12,202,307	11,786,891	11,775,535	415,416	11,356
Non-instructional services	176,250	189,828	189,828	(13,578)	-
Facilities acquisition and construction	-	5,260	-	(5,260)	5,260
Debt service:					
Principal	269,432	2,624	2,624	266,808	-
Interest	112,384	110,309	110,309	2,075	-
Other	11,521	1,775	1,775	9,746	-
Total expenditures	<u>37,489,385</u>	<u>36,209,440</u>	<u>36,177,354</u>	<u>1,279,945</u>	<u>32,086</u>
Excess (deficiency) of revenues over expenditures	667,010	2,348,920	2,264,009	1,681,910	(84,911)
OTHER FINANCING SOURCES (USES)					
Sale of other equipment	-	2,700	2,700	(2,700)	-
Operating transfers in	2,566,452	2,858,776	2,858,776	(292,324)	-
Operating transfers out	(3,670,252)	(4,090,347)	(3,973,362)	420,095	(116,985)
Other financing uses	-	-	(4,599)	-	4,599
Total other financing sources (uses)	<u>(1,103,800)</u>	<u>(1,228,871)</u>	<u>(1,116,485)</u>	<u>125,071</u>	<u>(112,386)</u>
Net change in fund balances	(436,790)	1,120,049	1,147,524	1,806,981	(197,297)
FUND BALANCES					
July 1, 2004	2,640,338	1,116,909	1,116,642	1,523,429	(267)
Prior period adjustments	-	74,560	79,159	(74,560)	4,599
July 1, 2004, as restated	<u>2,640,338</u>	<u>1,191,469</u>	<u>1,195,801</u>	<u>1,448,869</u>	<u>4,332</u>
June 30, 2005	\$ 2,203,548	\$ 2,311,518	\$ 2,343,325	\$ 3,255,850	\$ (192,965)

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

SCHEDULE 2

LAMAR COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
SIXTEENTH SECTION INTEREST
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original To Final	Final To Actual
REVENUES					
Sixteenth section sources	\$ 491,000	\$ 887,166	887,166	\$ 396,166	\$ -
Total revenues	491,000	887,166	887,166	396,166	-
EXPENDITURES					
Sixteenth section	15,000	50,907	50,907	(35,907)	-
Total expenditures	15,000	50,907	50,907	(35,907)	-
Excess (deficiency) of revenues over expenditures	476,000	836,259	836,259	360,259	-
OTHER FINANCING SOURCES (USES)					
Operating transfers out	(476,000)	(498,000)	(498,000)	22,000	-
Total other financing sources and uses	(476,000)	(498,000)	(498,000)	22,000	-
Net change in fund balances	-	338,259	338,259	(338,259)	-
FUND BALANCES					
July 1, 2004	-	232,052	232,052	(232,052)	-
Prior period adjustments	-	-	-	-	-
July 1, 2004, as restated	-	232,052	232,052	(232,052)	-
June 30, 2005	-	\$ 570,311	\$ 570,311	\$ (570,311)	

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

REQUIRED SUPPLEMENTARY INFORMATION

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET AMENDMENTS AND REVISIONS

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

SUPPLEMENTAL INFORMATION

SCHEDULE 3

LAMAR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture</i>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	<u>\$ 149,613</u>
Child nutrition cluster:		
School breakfast program	10.553	226,979
National school lunch program	10.555	<u>1,048,073</u>
Total		<u>1,275,052</u>
<i>Total U.S. Department of Agriculture</i>		<u>1,424,665</u>
<i>U.S. Department of Education</i>		
Direct Programs:		
Twenty-first Century Community Learning Centers	84.287	104,806
Safe and drug-free schools and communities- National Program	84.184	<u>54,373</u>
Total		<u>159,179</u>

SCHEDULE 3
PAGE TWO

LAMAR COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
Passed-through Mississippi Department of Education:		
Title I – grants to local educational agencies	84.010	\$ 1,061,998
Vocational education – basic grants to states	84.048	79,189
Safe and drug-free schools and communities – state grants	84.186	33,164
Fund for the improvement of education	84.215	239,925
Innovative education program strategies	84.298	33,063
Education technology state grants	84.318	36,574
English language acquisition grants	84.365	27,310
Improving teacher quality – state grants	84.367	393,437
Mississippi change initiative grant	84.XXX	37,474
Special Education-technical assistance and dissemination to improve services and results for children with disabilities	84.326	2,096
Total		<u>1,944,230</u>
Special education cluster:		
Special education – grants to states	84.027	1,134,349
Special education – preschool grants	84.173	32,160
Total		<u>1,166,509</u>
Total passed-through Mississippi Department of Education		<u>3,110,739</u>
Total U.S. Department of Education		<u>3,269,918</u>
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Human Services:		
Medicaid school-based claiming	93.XXX	4,934
Total		<u>4,934</u>
Total U.S. Department of Health and Human Services		<u>4,934</u>
Total for all federal awards		<u>\$ 4,699,517</u>

LAMAR COUNTY SCHOOL DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

NOTE 1

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

NOTE 2

The expenditure amounts include transfers out.

NOTE 3

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

SCHEDULE 4

**LAMAR COUNTY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 37,278,953	\$ 26,192,382	\$ 3,670,662	\$ 7,415,909
Other	10,651,486	1,533,880	526,298	8,591,308
Total	\$ 47,930,439	\$ 27,726,262	\$ 4,196,960	\$ 16,007,217
Total number of students	6,911			
Cost per student	\$ 6,935	\$ 4,012	\$ 607	\$ 2,316

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

Instruction – includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type – all the 1000 functional codes.

Administrative – includes expenditures for the following functions: Support Services – General Administration (2300s); Support Services – School Administration (2400s); Support Services – Business (2500s).

Other – includes all expenditure functions not included in Instruction or Administrative.

***REPORTS ON INTERNAL CONTROL AND
COMPLIANCE WITH OTHER MATTERS***

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

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Superintendent and School Board
Lamar County School District
Purvis, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lamar County School District as of and for the year ended June 30, 2005, which collectively comprise the Lamar County School District's basic financial statements and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lamar County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lamar County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a 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 disclosed no instances of noncompliance or other matters 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 September 20, 2005, 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.

Nicholson & Company

Hattiesburg, Mississippi
September 20, 2005

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

Superintendent and School Board
Lamar County School District
Purvis, Mississippi

Compliance

We have audited the compliance of the Lamar County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Lamar County 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 Lamar County School District's management. Our responsibility is to express an opinion on Lamar County 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 Lamar County School District's compliance with those requirements.

In our opinion, Lamar County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Lamar 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 Lamar County 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 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 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 noted no matters involving the 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.

Nicholson & Company

Hattiesburg, Mississippi
September 20, 2005

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

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

Superintendent and School Board
Lamar County School District
Purvis, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lamar County School District as of and for the year ended June 30, 2005, which collectively comprise Lamar County School District's basic financial statements and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972) disclosed no instances of noncompliance. The district reported \$38,987 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 finding and recommendation and your response are as follows:

1. Finding

We noted that six of the twenty Sixteenth Section lease payments we examined were not received by the district in a timely manner. Leases more than 60 days past due were not properly canceled by the district.

Recommendation

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), which states in part, "It shall be the duty of the Superintendent of Education to collect promptly all rentals due and all principal and interest due upon loans and investments of Sixteenth Section funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the Board of Education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease."

School District's Response

The Lamar County School District has an unusually high number of Sixteenth Section leases, both residential and commercial. Many of the residential leases were 99-year leases with payment of the entire lease at the beginning of the 99-year term. It has been a difficult process to distinguish and isolate the 99-year leases versus the other leases requiring annual rentals. There is an ongoing effort to place all the Sixteenth Section leases on computer so we can generate billing at annual rental due dates. In the past, we have not had this capability except by paper trail which has not been effective.

Hopefully, in the future, the District will be able to diminish the number of leases wherein the lease payments are not timely paid and avoid their becoming more than sixty (60) days past due.

The School District does not desire to terminate leases when they are sixty (60) days past due and many times cannot because of mortgage holders and other related issues. The District is making an effort to remedy this problem by the computer program which tracks lease due dates and lease payments and the functioning of a more aggressive Sixteenth Section Land Manager.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure 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.

Hattiesburg, Mississippi
September 20, 2005

Nicholson & Company

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAMAR COUNTY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|------------------------------------------------------------------------------------------|-------------|
| 1. Type of auditor's report issued on the general purpose financial statements: | Unqualified |
| 2. Material noncompliance relating to the general purpose financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|------------------------------------------------------------------------------------------|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Title I – grants to local educational agencies
CFDA #84.010 | |
| b. Improving teacher quality – state grants
CFDA #84.367 | |

LAMAR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Awards Findings and Questioned Costs

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