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LAUDERDALE COUNTY SCHOOL DISTRICT

Audited Financial Statements

For the Year Ended June 30, 2005

**LAUDERDALE COUNTY SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2005**

Table of Contents

	<u>Page</u>
FINANCIAL AUDIT REPORT	
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet –Governmental Funds	13
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Assets	19
Statement of Changes in Fiduciary Net Assets	20
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	39
Budgetary Comparison Schedule – General Fund	40
Budgetary Comparison Schedule – School Food Service Fund	41
Budgetary Comparison Schedule – Title I Fund	42
Notes to Budgetary Comparison Schedules	43
Schedule of Expenditures of Federal Awards	44
SUPPLEMENTAL INFORMATION	45
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds	46
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards	47

**LAUDERDALE COUNTY SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2005**

Table of Contents (Continued)

	Page
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	49
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	54
AUDITEE'S CORRECTIVE ACTION PLAN AND/OR SUMMARY OF PRIOR AUDIT FINDINGS	56

**LAUDERDALE COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT**



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

January 12, 2006

Superintendent and School Board
Lauderdale County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006, on our consideration of the Lauderdale County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (4) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (40) through (43) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale 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. In addition, the Schedule of Instructional Administrative and Other Expenditures – Governmental Funds is presented for the purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Philadelphia, Mississippi

Watkins Ward and Stafford, PLLC

**LAUDERDALE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



**Superintendent
David Little**

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$3,716,545, which represents 14% increase from fiscal year ending June 30, 2004.
- General revenues account for \$37,089,846 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,891,926 or 18% of total revenues.
- The district had \$41,395,237 in expenses; only \$7,891,926 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$37,089,846 were adequate to provide for these programs.
- Among major funds, the General Fund had \$35,936,785 in revenues and \$31,977,036 in expenditures. The General Fund's fund balance increased \$1,223,495 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$682,264.
- Long-term debt decreased by \$1,433,621. The decrease was due to scheduled principal payments on outstanding debt. The liability for compensated absences decreased \$74,925.

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 in 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 included in the financial statements of the audit report.

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 in this report.

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

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 in 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 fund. These budgetary comparison statements are provided as required supplementary information in this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included as supplemental information in this report. Also included in the supplemental information is a schedule of instructional, administrative and other expenditures of governmental funds.

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 \$29,437,736 as of June 30, 2005.

By far the largest portion of the district's net assets (70%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the district's net assets for the fiscal year ended:

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Current assets	\$ 14,254,947	13,122,165
Capital assets, net	<u>26,457,280</u>	<u>27,139,544</u>
Total Assets	<u>40,712,227</u>	<u>40,261,709</u>
Current liabilities	1,944,728	3,747,812
Long-term debt outstanding	<u>9,329,763</u>	<u>10,792,706</u>
Total Liabilities	<u>11,274,491</u>	<u>14,540,518</u>
Net Assets:		
Invested in capital assets, net of related debt	20,511,859	18,436,595
Restricted	4,515,097	4,172,236
Unrestricted	<u>4,410,780</u>	<u>3,112,360</u>
Total Net Assets	<u>\$ 29,437,736</u>	<u>25,721,191</u>

Changes in net assets. The district's total revenues for the fiscal year ended June 30, 2005, were \$44,981,772. This represents an increase of \$3,318,088, or 7%, from the prior year. The total cost of all programs and services was \$41,395,237. This represents an increase of \$2,276,023, or 5%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>06/30/05</u>	<u>06/30/04</u>
Revenues:		
Program revenues	\$ 7,891,926	7,231,872
General revenues	<u>37,089,846</u>	<u>34,431,812</u>
Total Revenues	<u>44,981,772</u>	<u>41,663,684</u>
Expenses:		
Instruction	25,568,748	24,104,206
Support services	12,869,230	12,052,504
Non-instructional	2,400,464	2,215,892
Sixteenth section	134,260	160,784
Interest and other expenses on long-term liabilities	<u>422,535</u>	<u>585,828</u>
Total Expenses	<u>41,395,237</u>	<u>39,119,214</u>
Increase in Net Assets	<u>\$ 3,586,535</u>	<u>2,544,470</u>

Governmental activities. The following table presents the cost of five major district functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for years ending June 30, 2005 and June 30, 2004. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and district's taxpayers by each of these functions.

	<u>Total Expenses</u>		<u>Total Net (Expenses) Revenue</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Instruction	\$ 25,568,748	24,104,206	(22,148,718)	(20,857,960)
Support services	12,869,230	12,052,504	(11,028,929)	(10,706,245)
Non-instructional	2,400,464	2,215,892	212,839	243,225
Sixteenth section	134,260	160,784	(115,968)	19,466
Interest on long-term liabilities	<u>422,535</u>	<u>585,828</u>	<u>(422,535)</u>	<u>(585,828)</u>
Total Expenses	\$ <u>41,395,237</u>	<u>39,119,214</u>	<u>(33,503,311)</u>	<u>(31,887,342)</u>

- Net cost of governmental activities (\$33,503,311) was financed by general revenue, which is made up of primarily property taxes (\$9,048,744), state revenue (\$27,074,961) and sixteenth section sources (\$301,677).
- Investment earnings accounted for \$493,078 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the district as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported a combined fund balance of \$13,801,296, an increase of \$2,821,946 due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$9,284,417 or 62% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the district's discretion. The remaining fund balance of \$4,516,879 or 38% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the district. The increase in fund balance in the General Fund for the fiscal year was \$1,223,495. The fund balance of Other Governmental Funds showed an increase of \$178,281. The fund balance of the School Food Service Fund showed an increase of \$22,696. The fund balance of the Building Project Fund increased \$1,397,474 during the fiscal year. This increase was due to other financing sources being greater than the related expenses.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the district's total capital assets were \$35,619,330 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$415,990 from the previous year. Total accumulated depreciation as of June 30, 2005, was \$9,162,050, and total depreciation expense for the year was \$1,163,087, resulting in total net assets of \$26,457,280.

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

Debt Administration. At June 30, 2005, the district had \$10,711,154 in general obligation bonds and other long-term debt outstanding, of which \$1,381,391 is due within one year. The district retired \$1,433,621 of long-term debt during the year ended June 30, 2005.

The district maintains an AA-bond rating.

Additional information of the district's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The Lauderdale County 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 increased from 43.11 mills for the year ending June 30, 2004, to 43.70 mills for the year ending June 30, 2005. In addition, the district's system of financial planning, budgeting and internal financial controls are well regarded. The district plans to continue its sound fiscal management to meet the challenges of the future.

The district has experienced steady growth over the past five years. Latest enrollment figures indicate that student enrollment in the district will remain relatively steady next year. The budget for the next fiscal year has taken this into account 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 Lauderdale County School District, P.O. Box 5498, Meridian, Mississippi 39301.

LAUDERDALE COUNTY SCHOOL DISTRICT
Statement of Net Assets
For the Year Ended June 30, 2005

		<u>Primary Government Governmental Activities</u>
Assets		
Cash and cash equivalents (Note 2)	\$	12,369,691
Due from other governments		1,173,606
Lease receivable, net		68,563
Other receivable, net		2,220
Inventories and prepaid items		64,395
Restricted assets		576,472
Capital assets, net (Note 4)		26,457,280
Total Assets		<u>40,712,227</u>
Liabilities		
Accounts payable and accrued liabilities		131,938
Construction contracts and retainage payable		261,920
Deferred revenue		59,793
Interest payable on long-term liabilities		109,686
Long-term liabilities, due within one year (Note 5)		
Capital related liabilities		1,381,391
Long-term liabilities, due beyond one year (Note 5)		9,016,514
Capital related liabilities		313,249
Total Liabilities	\$	<u>11,274,491</u>
Net Assets		
Investment in capital assets, net of related debt	\$	20,511,859
Restricted net assets:		
Expendable:		
School - based activities		2,203,832
Debt service		1,805,961
Forestry improvements		173,777
Unemployment benefits		128,191
Non-expendable:		
Sixteenth section		203,336
Unrestricted		<u>4,410,780</u>
Total Net Assets	\$	<u>29,437,736</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 25,568,748	517,845	2,902,185		(22,148,718)
Support services	12,869,230		1,840,301		(11,028,929)
Non-instructional	2,400,464	849,512	1,763,791		212,839
Sixteenth section	134,260	18,292			(115,968)
Interest and other expenses on long-term liabilities	419,315				(419,315)
Debt - other	3,220			0	(3,220)
Total Governmental Activities	\$ 41,395,237	1,385,649	6,506,277	0	(33,503,311)
General Revenues:					
Taxes:					
General purpose levies				\$ 7,884,438	
Debt purpose levies				1,164,306	
Unrestricted grants and contributions:					
State				27,074,961	
Federal				64,725	
Unrestricted investment earnings				493,078	
Sixteenth section sources				301,677	
Other				106,661	
Total General Revenues				37,089,846	
Total General Revenues, Special Items Extraordinary Items and Transfers					37,089,846
Change in Net Assets					3,586,535
Net Assets - Beginning					25,721,191
Prior Period Adjustment					130,010
Net Assets - Beginning - Restated					25,851,201
Net Assets - Ending					\$ 29,437,736

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

LAUDERDALE COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	School Food Service Fund	Title I Fund	Building Project Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents (Note 2)	\$ 3,744,942	611,530	280	4,591,634	3,589,356	12,537,742
Cash with fiscal agents (Note 2)					408,421	408,421
Due from other governments	491,001		221,205		461,400	1,173,606
Lease receivable, net					68,563	68,563
Due from other funds (Note 3)	636,886					636,886
Advances to other funds					35,285	35,285
Inventories and prepaid items		64,395				64,395
Other receivables, net	2,220					2,220
Total Assets	\$ 4,875,049	675,925	221,485	4,591,634	4,563,025	14,927,118
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 41,775				90,163	131,938
Construction contracts and retainage payable	67,760		221,485			261,920
Due to other funds (Note 3)	6,200	157,639		194,160	251,562	636,886
Deferred revenue					59,793	59,793
Advances from other funds	35,285					35,285
Total Liabilities	151,020	157,639	221,485	194,160	401,518	1,125,822

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

LAUDERDALE COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds (Continued)
 June 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	School Food Service Fund	Title I Fund	Building Project Fund	Other Governmental Funds	
Fund Balances:						
Reserved for:						
Inventory		64,395				64,395
Unreserved:						
Designated:						
Capital projects						
Undesignated, reported in:						
General fund	4,724,029			4,397,474	55,010	4,452,484
Special Revenue funds		453,891			1,987,514	4,724,029
Debt Service funds					1,915,647	2,441,405
Permanent funds			0		203,336	1,915,647
Total Fund Balances	<u>4,724,029</u>	<u>518,286</u>	<u>0</u>	<u>4,397,474</u>	<u>4,161,507</u>	<u>13,801,296</u>
Total Liabilities and Fund Balance	<u>\$ 4,875,049</u>	<u>675,925</u>	<u>221,485</u>	<u>4,591,634</u>	<u>4,563,025</u>	<u>14,927,118</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 13,801,296
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$9,162,050	26,457,280
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 5)	(10,711,154)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds	<u>(109,686)</u>
Total Net Assets - Governmental Activities	\$ <u><u>29,437,736</u></u>

Exhibit D

LAUDERDALE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	School Food Service Fund	Title I Fund	Building Project Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 8,731,842	834,796	585	91,634	1,268,207	10,927,064
State sources	27,072,921	13,799			1,294,990	28,381,710
Federal sources	132,022	1,518,884	1,741,797		1,871,549	5,264,252
Sixteenth section sources					365,039	365,039
Total Revenues	<u>35,936,785</u>	<u>2,367,479</u>	<u>1,742,382</u>	<u>91,634</u>	<u>4,799,785</u>	<u>44,938,065</u>
Expenditures:						
Instruction	20,766,417		1,054,646		3,163,494	24,984,557
Support services	10,809,363	125,888	506,111		1,033,387	12,474,749
Noninstructional services	31,222	2,070,118	139,797		150,261	2,391,398
Sixteenth section					134,260	134,260
Facilities acquisition and construction	187,760			194,160		381,920
Debt service:						
Principal	82,696				1,276,000	1,358,696
Interest	99,848				336,773	436,621
Other					3,220	3,220
Total Expenditures	<u>31,977,306</u>	<u>2,196,006</u>	<u>1,700,554</u>	<u>194,160</u>	<u>6,097,395</u>	<u>42,165,421</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,959,479</u>	<u>171,473</u>	<u>41,828</u>	<u>(102,526)</u>	<u>(1,297,610)</u>	<u>2,772,644</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds (Continued)
 For the Year Ended June 30, 2005

	Major Funds					Total
	General Fund	School Food Service Fund	Title I Fund	Building Project Fund	Other Governmental Funds	Governmental Funds
Other Financing Sources (Uses):						
Insurance loss recoveries	43,707					43,707
Sale of other property	5,520	75				5,595
Operating transfers in	4,240,200			1,500,000	1,731,614	7,471,814
Operating transfers out	(7,025,411)	(148,852)	(41,828)		(255,723)	(7,471,814)
Total Other Financing Sources (Uses)	<u>(2,735,984)</u>	<u>(148,777)</u>	<u>(41,828)</u>	<u>1,500,000</u>	<u>1,475,891</u>	<u>49,302</u>
Net Change in Fund Balances	1,223,495	22,696	0	1,397,474	178,281	2,821,946
Fund Balance						
July 1, 2004	3,500,534	499,664	0	3,000,000	3,853,216	10,853,414
Prior period adjustments					130,010	130,010
July 1, 2004, as restated	<u>3,500,534</u>	<u>499,664</u>	<u>0</u>	<u>3,000,000</u>	<u>3,983,226</u>	<u>10,983,424</u>
Decrease in reserve for inventory		(4,074)				(4,074)
June 30, 2005	<u>\$ 4,724,029</u>	<u>518,286</u>	<u>0</u>	<u>4,397,474</u>	<u>4,161,507</u>	<u>13,801,296</u>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005**

	<u>Amount</u>
Net Change in Fund Balances – Governmental Funds	\$ 2,821,946
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$494,079 and the depreciation expense amounted to \$1,163,037. (Note 4)	(668,958)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	1,358,696
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on disposition of capital assets	(7,711)
Proceeds from sales of capital assets	(5,595)
4. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the changes in net assets differs from the change in fund balances by a combination of the following items:	
Decrease in accrued compensated absences	74,925
Decrease in accrued interest on bonds	17,306
5. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(4,074)
Change in Net Assets of Governmental Activities	\$ <u>3,586,535</u>

**LAUDERDALE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 2,236	2,150,317
Total Assets	<u>\$ 2,236</u>	<u>2,150,317</u>
 Liabilities		
Accounts payable and accrued liabilities	\$	1,858,890
Due to student clubs		282,385
Other payables		<u>9,042</u>
Total Liabilities	<u>\$</u>	<u>2,150,317</u>
 Net Assets		
Reserved for endowments	\$ 2,236	
Held in trust	<u>\$ 2,236</u>	

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

Exhibit F

**LAUDERDALE COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2005**

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 53
Contributions and donations from private sources	<u>520</u>
Total Additions	<u>573</u>
Deductions	
Scholarships awarded	<u>500</u>
Total Deductions	<u>500</u>
Change in Net Assets	<u>73</u>
Net Assets	
July 1, 2004	
Prior period adjustment	<u>2,163</u>
July 1, 2004, restated	<u>2,163</u>
June 30, 2005	<u>\$ 2,236</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

LAUDERDALE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005 (Continued)

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

LAUDERDALE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004 (Continued)

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.

School Food Service Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, School Food Service revenues received by the district.

Title I, Part A Basic FY 2005 Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title I, Part A revenues received by the district.

Building Project Fund – This capital projects fund accounts for financial resources relating to future capital projects.

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.

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

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.

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

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 12 months or less. Cash and cash equivalents are valued at cost.

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

G. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

Capital 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.

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ -	-
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.

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 equally 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.

LAUDERDALE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005 (Continued)

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

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

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

Reserved for 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.

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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.

(2) Cash and Cash Equivalents and Cash with Fiscal Agents.

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.

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$12,537,742 and \$2,152,553, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$12,369,691 and Restricted Assets \$576,472. The restricted assets represents the cash balance of sixteenth section principal funds (permanent funds) in the amount of \$168,051 and MAEP funds (other governmental funds) in the amount of \$408,421 which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$18,294,931.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$408,421.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 636,886	6,200
School Food Service funds		157,639
Title I, Part A Basic		221,485
Other governmental funds	<u> -</u>	<u>251,562</u>
Total Funds	<u>\$ 636,886</u>	<u>636,886</u>

B. Advances To/From Other Funds.

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General Fund	\$ -	35,285
Other governmental funds	<u>35,285</u>	<u> -</u>
Total Funds	<u>\$ 35,285</u>	<u>35,285</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

C. Transfers In/Out:

	Transfers In	Transfers Out
General Fund	\$ 4,240,200	7,025,411
School Food Service Fund		148,852
Title I, Part A Basic		41,828
Building Project Fund	1,500,000	
Other governmental funds	1,731,614	255,723
Total Funds	\$ 7,471,814	7,471,814

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.

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 7,057	1,558	8,615
2007	7,057	1,276	8,333
2008	7,057	994	8,051
2009	7,057	711	7,768
2010	7,057	429	7,486
Total	\$ 35,285	4,968	40,253

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

(4) Capital Assets.

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

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2005</u>
<u>Non-depreciable Capital Assets:</u>				
Land	\$ 476,267			476,267
Construction in progress		261,920		261,920
Total Non-depreciable Capital Assets	<u>476,267</u>	<u>261,920</u>		<u>738,187</u>
<u>Depreciable Capital Assets:</u>				
Buildings	25,196,367	120,000		25,316,367
Improvements other than buildings	3,284,924			3,284,924
Mobile equipment	5,314,534	59,786	35,000	5,339,320
Furniture and equipment	886,213	52,373	43,089	895,497
Leased property under capital leases	45,035			45,035
Total Depreciable Capital Assets	<u>34,727,073</u>	<u>232,159</u>	<u>78,089</u>	<u>34,881,143</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings	3,990,153	506,327		4,496,480
Improvements other than buildings	632,812	131,397		764,209
Mobile equipment	2,700,796	461,745	28,350	3,134,191
Furniture and equipment	731,429	57,269	36,433	752,265
Leased property under capital leases	8,606	6,299		14,905
Total Accumulated Depreciation	<u>8,063,796</u>	<u>1,163,037</u>	<u>64,783</u>	<u>9,162,050</u>
Total Depreciable Capital Assets, Net	<u>26,663,277</u>	<u>(930,878)</u>	<u>13,306</u>	<u>25,719,093</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,139,544</u>	<u>(668,958)</u>	<u>13,306</u>	<u>26,457,280</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 639,888
Support services	501,817
Non-instructions	21,382
Total Depreciation Expense	<u>\$ 1,163,087</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

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

(5) Long-term Liabilities.

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2005</u>	<u>Amounts Due Within One Year</u>
A. General obligation bonds payable	\$ 3,996,000		611,000	3,385,000	625,000
B. Limited obligation bonds payable	1,655,000		305,000	1,350,000	315,000
C. Three mill notes payable	3,255,000		360,000	2,895,000	360,000
D. Obligations under capital leases	28,071		9,487	18,584	7,417
E. Obligations under energy efficiency lease	1,822,531		73,209	1,749,322	73,974
F. Qualified zone academy bonds payable	1,000,000			1,000,000	
G. Compensated absences payable	388,173	0	74,925	313,248	0
Total	<u>12,144,775</u>	<u>0</u>	<u>1,433,621</u>	<u>10,711,154</u>	<u>1,381,391</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation refunding bonds, Series 1997	Varies	10/01/97	04/01/11	\$ 4,410,000	2,805,000
General obligation refunding bonds, Series 2003	Varies	04/15/03	04/01/08	992,000	580,000
Total				<u>\$ 5,402,000</u>	<u>3,385,000</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

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	\$ 625,000	149,367	774,367
2007	651,000	125,875	776,875
2008	604,000	100,248	704,248
2009	475,000	74,538	549,538
2010	500,000	51,500	551,500
2011 – 2015	<u>530,000</u>	<u>26,500</u>	<u>556,500</u>
Total	\$ <u>3,385,000</u>	<u>528,028</u>	<u>3,913,028</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 2% of property assessments as of October 1, 2004. This debt will be retired from the Bond Retirement Fund.

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	Varies	6/1/98	6/1/08	\$ <u>3,730,000</u>	<u>1,350,000</u>
Total				\$ <u>3,730,000</u>	<u>1,350,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 315,000	50,484	365,484
2007	330,000	36,975	366,975
2008	350,000	22,525	372,525
2009	<u>355,000</u>	<u>7,544</u>	<u>362,544</u>
Total	\$ <u>1,350,000</u>	<u>117,528</u>	<u>1,467,528</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

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 Bond Retirement Fund.

C. Three mill notes payable.

Debt currently outstanding is 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>
Three mill – ten year notes payable	Varies	7/24/03	7/24/13	\$ 1,910,000	1,850,000
Three mill – ten year notes payable	Varies	12/15/98	12/15/08	<u>2,100,000</u>	<u>1,045,000</u>
Total				<u>\$ 4,010,000</u>	<u>2,895,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 360,000	88,913	448,913
2007	355,000	75,222	430,222
2008	360,000	61,405	421,405
2009	145,000	51,925	196,925
2010	225,000	48,800	273,800
2011 – 2015	<u>1,450,000</u>	<u>113,412</u>	<u>1,563,412</u>
Total	<u>\$ 2,895,000</u>	<u>439,677</u>	<u>3,334,677</u>

This debt will be retired from the Three Mill Loan Fund and Three Mill Note Fund.

D. Obligations under capital leases.

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

LAUDERDALE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)

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

1. The lessee will obtain title after the last lease payment or bargain purchases option has been made.
2. The lessee can purchase the property by paying the outstanding balance at any time during the 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	\$ 7,417	1,042	8,459
2007	5,374	655	6,029
2008	<u>5,793</u>	<u>239</u>	<u>6,032</u>
Total	<u>\$ 18,584</u>	<u>1,936</u>	<u>20,520</u>

- 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	\$ 73,974	87,323	161,297
2007	81,910	83,390	165,300
2008	96,404	78,904	175,308
2009	105,231	73,813	179,044
2010	114,779	68,252	183,031
2011 – 2015	744,160	239,059	983,219
2016 – 2018	<u>532,864</u>	<u>38,869</u>	<u>571,733</u>
Total	<u>\$ 1,749,322</u>	<u>669,610</u>	<u>2,418,932</u>

The debt will be retired from the district maintenance fund.

- F. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as qualified zone academy bonds. Debt currently outstanding is as follows:

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified zone academy bonds, Series 2000	.00%	7/20/00	7/20/10	\$ 1,000,000	1,000,000
Total				\$ 1,000,000	1,000,000

This debt will be retired from the Three Mill Note Fund.

G. Compensated absences payable.

As more fully explained in Note 1 (0), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(6) Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 \$2,626,206, \$2,287,865, and \$2,137,903, respectively, which equaled the required contributions for each year.

(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

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

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	\$ 191,692
2007	193,163
2008	191,558
2009	186,409
2010	187,970
2011 – 2015	882,825
2016 – 2020	938,100
2021 – 2025	1,039,920
2026 – 2030	<u>1,174,117</u>
Total	<u>\$ 4,985,754</u>

(8) Prior Period Adjustment

A summary of significant fund equity reclassifications is as follows:

<u>Exhibit B – Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
To correct beginning fund balance for prior year expenditures – debt service fund	\$ 130,010
Total Adjustments to Governmental Funds	<u>130,010</u>
Total Adjustments	<u>\$ 130,010</u>

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

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
Other governmental funds	To correct beginning fund balance for prior year expenditures	\$ <u>130,010</u>
	Total	<u>\$ 130,010</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005 (Continued)**

(9) Risk Management

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

(10) Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Hardy Poindexter Graham Foundation, Math First and Phil Hardin Foundation, has entered into such an arrangement dated July 20, 2000.

In this arrangement, each partner agrees to contribute to the district, in the form of a grant, on July 20, 2000, for the benefit of the Qualified Zone Academy. The partners Hardy Poindexter Graham Foundation, Math First and Phil Hardin Foundation, would make contributions in the amount of \$10,000, \$43,050 and \$75,000, respectively.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 20. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 44,000
2007	48,000
2008	52,000
2009	62,000
2010	290,000
2011	<u>240,000</u>
Total	\$ <u>736,000</u>

LAUDERDALE COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

LAUDERDALE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP) Basis</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Local sources	\$ 8,566,011	8,732,206	8,731,842	166,195	(364)
State sources	27,052,606	27,072,921	27,072,921	20,315	
Federal sources	31,000	131,982	132,022	100,982	40
Total Revenues	<u>35,649,617</u>	<u>35,937,109</u>	<u>35,936,785</u>	<u>287,492</u>	<u>(324)</u>
Expenditures:					
Instruction	20,917,599	20,766,352	20,766,417	151,247	(65)
Support services	11,969,445	10,788,298	10,809,363	1,181,147	(21,065)
Noninstructional services	22,305	31,222	31,222	(8,917)	
Facilities acquisition and construction	210,000	120,000	187,760	90,000	(67,760)
Debt service:					
Principal	168,348	161,812	82,696	6,536	79,116
Interest			99,848		(99,848)
Total Expenditures	<u>33,287,697</u>	<u>31,867,684</u>	<u>31,977,306</u>	<u>1,420,013</u>	<u>(109,622)</u>
Excess (Deficiency) of Revenues Revenues Over Expenditures	2,361,920	4,069,425	3,959,479	1,707,505	(109,946)
Other Financing Sources (Uses):					
Insurance loss recoveries	8,000	43,707	43,707	35,707	
Sale of transportation equipment	1,000	5,520	5,520	4,520	
Operating transfers in	4,400,199	4,091,348	4,240,200	(308,851)	148,852
Operating transfers out	(6,193,614)	(5,525,411)	(7,025,411)	668,203	(1,500,000)
Total Other Financing Sources Uses	<u>(1,784,415)</u>	<u>(1,384,836)</u>	<u>(2,735,984)</u>	<u>399,579</u>	<u>(1,351,148)</u>
Net Change in Fund Balances	<u>577,505</u>	<u>2,684,589</u>	<u>1,223,495</u>	<u>2,107,084</u>	<u>(1,461,094)</u>
Fund Balances:					
July 1, 2004	3,500,534	3,500,534	3,500,534		
Prior period adjustments July 1, 2004, as restated	<u>3,500,534</u>	<u>3,500,534</u>	<u>3,500,534</u>	<u>0</u>	<u>0</u>
June 30, 2005	<u>\$ 4,078,039</u>	<u>6,185,123</u>	<u>4,724,029</u>	<u>2,107,084</u>	<u>(1,461,094)</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
School Food Service Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP) Basis</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Local sources	\$ 823,582	833,331	834,796	9,749	1,465
State sources	14,350	13,799	13,799	(551)	
Federal sources	1,417,925	1,307,624	1,518,884	(110,301)	211,260
Total Revenues	<u>2,255,857</u>	<u>2,154,754</u>	<u>2,367,479</u>	<u>(101,103)</u>	<u>212,725</u>
Expenditures:					
Support services	129,866	125,888	125,888	3,978	
Noninstructional services	2,033,506	1,873,962	2,070,118	159,544	(196,156)
Total Expenditures	<u>2,163,372</u>	<u>1,999,850</u>	<u>2,196,006</u>	<u>163,522</u>	<u>(196,156)</u>
Excess (Deficiency) of Revenues Revenues Over Expenditures	92,485	154,904	171,473	62,419	16,569
Other Financing Sources (Uses):					
Sale of other property		75	75	75	
Operating transfers out	(100,000)		(148,852)	100,000	(148,852)
Total Other Financing Sources Uses	<u>(100,000)</u>	<u>75</u>	<u>(148,777)</u>	<u>100,075</u>	<u>(148,852)</u>
Net Change in Fund Balances	<u>(7,515)</u>	<u>154,979</u>	<u>22,696</u>	<u>162,494</u>	<u>(132,283)</u>
Fund Balances:					
July 1, 2004	499,664	499,664	499,664		
Prior period adjustments					
July 1, 2004, as restated	<u>499,664</u>	<u>499,664</u>	<u>499,664</u>	<u>0</u>	<u>0</u>
Decrease in reserve for inventory			(4,074)		(4,074)
June 30, 2005	<u>\$ 492,149</u>	<u>654,643</u>	<u>518,286</u>	<u>162,494</u>	<u>(136,357)</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP) Basis</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Local sources	\$	1,832	585	1,832	(1,247)
State sources					
Federal sources	<u>1,207,705</u>	<u>1,738,070</u>	<u>1,741,797</u>	<u>530,365</u>	<u>3,727</u>
Total Revenues	<u>1,207,705</u>	<u>1,739,902</u>	<u>1,742,382</u>	<u>532,197</u>	<u>2,480</u>
Expenditures:					
Instruction	875,028	1,052,068	1,054,646	(177,040)	(2,578)
Support services	224,414	506,209	506,111	(281,795)	98
Noninstructional services	<u>39,528</u>	<u>139,797</u>	<u>139,797</u>	<u>(100,269)</u>	
Total Expenditures	<u>1,138,970</u>	<u>1,698,074</u>	<u>1,700,554</u>	<u>(559,104)</u>	<u>(2,480)</u>
Excess (Deficiency) of Revenues Revenues Over Expenditures	68,735	41,828	41,828	(26,907)	
Other Financing Sources (Uses):					
Operating transfers out	<u>(62,200)</u>	<u>(41,828)</u>	<u>(41,828)</u>	<u>20,372</u>	<u>0</u>
Total Other Financing Sources Uses	<u>(62,200)</u>	<u>(41,828)</u>	<u>(41,828)</u>	<u>20,372</u>	<u>0</u>
Net Change in Fund Balances	<u>6,535</u>	<u>0</u>	<u>0</u>	<u>(6,535)</u>	<u>0</u>
Fund Balances:					
July 1, 2004					
Prior period adjustments July 1, 2004, as restated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2005	\$ <u>6,535</u>	<u>0</u>	<u>0</u>	<u>(6,535)</u>	<u>0</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT

**Notes to the Required Supplementary Information
For the Year Ended June 30, 2005**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

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

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 97,345
Child nutrition cluster:		
School Breakfast program	10.553	399,114
National School Lunch program	10.555	1,010,023
Total Child Nutrition Cluster		1,409,137
Total U.S. Department of Agriculture		1,506,482
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	57,002
Total U.S. Department of Defense		57,002
<u>U.S. Department of Education</u>		
Direct program:		
Impact aid	84.041	63,722
Total		63,722
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,741,796
Vocational education - basic grants to states	84.048	58,808
Safe and drug-free schools and communities - state grants	84.186	35,052
Even start - state educational agencies	84.213	105,869
Innovative education program strategies	84.298	35,145
Eisenhower professional development state grants	84.281	310,771
Comprehensive school reform demonstration	84.332	153,570
Improving teacher quality - state grants	84.367	21,226
Total		2,462,237
Special education cluster:		
Special education - grants to states	84.027	1,025,290
Special education - preschool grants	84.173	33,389
Total		1,058,679
Total Passed-through Mississippi Department of Education		3,520,916
Total U.S. Department of Education		3,584,638
<u>Federal Emergency Management Agency/</u>		
Passed-through the Mississippi Emergency Management Agency		
Public assistance grants	83.544	67,258
<u>Total for All Federal Awards</u>		\$ 5,215,380

Notes to Schedule:

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

LAUDERDALE COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

LAUDERDALE COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and
Other Expenditures – Governmental Funds
For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 32,880,152	23,605,982	2,835,035	6,439,135
Other	<u>9,285,269</u>	<u>1,378,576</u>	<u>522,668</u>	<u>7,384,025</u>
Total	<u>\$ 42,165,421</u>	<u>24,984,558</u>	<u>3,357,703</u>	<u>13,823,160</u>
Total number of students	6,119	6,119	6,119	6,119
Cost per student	\$ 6,891	4,083	549	2,259

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



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

January 12, 2006

Superintendent and School Board
Lauderdale County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lauderdale County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 04-1 through 04-6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated January 12, 2006, which is included in this report.

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

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC



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

January 12, 2006

Superintendent and School Board
 Lauderdale County School District

Compliance

We have audited the compliance of the Lauderdale County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 04-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the findings referred to above are 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.

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC



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

January 12, 2006

Superintendent and School Board
Lauderdale County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lauderdale County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain 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 an instance of noncompliance. The district reported \$171,291 of classroom supply funds carried over from previous years.

1. Finding

During inspection of the sixteenth section lease ledger, instances were noted where payments of leases were more than 60 days late.

Recommendation

The district should comply with Section 29-3-57, Miss Code Ann. (1972), which requires "the superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section land; likewise, he shall keep a correct current docket upon the existing leases or any extensions thereof as to the amounts and time of payment of rentals provided for by such lease. It shall be the duty of the superintendent to collect investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental 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

Beginning January 2006, Lauderdale County School District shall comply with Section 29-3-57, Miss. Code Ann. (1972), which addresses sixteenth section leases and termination of unpaid leases.

2. Finding

During our examination of payroll expenditure transactions selected for test purposes, it was noted that no documentation was provided for twelve employees as being approved for employment by the board.

Recommendation

The district should comply with Section 37-7-301(w), Miss Code Ann. (1972), which established the duties of the school board to employ all non-instructional and non-certified employees and fix the duties and compensations for such personnel.

School District's Response

The district concurs with the recommendation and will follow Section 37-7-301(w), Miss. Code Ann. (1972).

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 specific parties. However, this report is a matter of public record and its distribution is not limited.

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC

LAUDERDALE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAUDERDALE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditors' Results:

Financial Statements

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

Federal Awards:

- | | |
|--|---|
| 4. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section____ .510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Child Nutrition Cluster | CFDA # 10.555
CFDA # 10.553
CFDA # 10.550 |
| b. Special Education Cluster | CFDA # 84.027
CFDA # 84.173 |
| 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 |

LAUDERDALE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2005

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? Yes

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses

05-1. Finding

Controls were not in place to prevent an organization and/or individual from opening a bank account or obtaining a loan with the school district's federal tax identification number. We noted several accounts and loans which used the district's federal tax identification number.

Recommendation

The district should implement proper controls to prevent improper use of the district's tax identification number.

05-2. Finding

During our examination of payroll expenditures selected for test purposes, it was noted that one support employee was paid excess supplement above approval of the board.

Recommendation

The district should strengthen controls over the payroll system to insure that this does not occur again.

LAUDERDAL COUNTY SCHOOL DISTRICT

**AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS**



**Superintendent
David Little**

February 1, 2006

Watkins, Ward and Stafford, PLLC
P.O. Box 583
Philadelphia, Ms. 39305

Re: Financial and Compliance Division

As required by Section 315 of OMB Circular A-133, The Lauderdale County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2005

- 05-1. a. Dale Smith, Manager 16th Section Land 601-485-1742
- b. We concur with the recommendation.
- c. Beginning February 2006, the Lauderdale County School District shall comply with Section 29-3-57, Miss. Code Ann. (1972), which addresses sixteenth section leases and termination of unpaid leases.
- 05-2. a. Ed Mosley, Personnel Director 601-485-1746
- b. We concur with the recommendation.
- c. The district will comply with Section 37-7-301(w) Miss Code Ann. (1972) to insure that all employees are approved by our school board before compensations are made.
- 05-3. a. Charlotte Parker, Director of Finance
- b. We concur with the recommendation.
- c. The district has taken proper steps to correct this matter. The accounts that were using our federal tax identification number have been corrected. We have received letters from the banks stating that no new accounts will be opened unless authorized by the Lauderdale County School District Financial Director.
- 05-4. a. Charlotte Parker, Director of Finance
- b. We concur with the recommendation.

- c. The district will strengthen control over the payroll system to insure that all supplements are checked by the payroll manager and then checked by the Director of Finance.

Sincerely,

A handwritten signature in cursive script that reads "Charlotte Parker".

Charlotte Parker
Director of Finance



**Superintendent
David Little**

Financial and Compliance Division

As required by Section 315 c of OMB Circular A-133, the Lauderdale County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2004.

Finding 04-1.

Corrective Action Plan Details

Charlotte Parker, Director of Finance 601-693-1683

The district has implemented policies and procedures to insure that all invoices are cancelled so duplication of payments will not occur.

Finding 04-2.

Corrective Action Plan Details

Charlotte Parker, Director of Finance 601-693-1683

The district has implemented proper controls to prevent improper use of the district's tax identification number.

Finding 04-3.

Corrective Action Plan Details

Charlotte Parker, Director of Finance 601-693-1683

The district has strengthen controls over the payroll system to insure that no employee will receive a check that they are not entitled to.

Finding 04-4.

Corrective Action Plan Details

Dale Smith, 16th Section Land Manager 601-693-1683

The district is backing up sixteenth section transactions daily and taking it off-site. We are also maintaining journals of our sixteenth section receipts and due date of leases.

Finding 04-5.

Corrective Action Plan Details

Charlotte Parker, Director of Finance 601-693-1683

The district will comply with all loan covenants in the future.

Finding 04-6.

Corrective Action Plan Details

Kay Mayatt, Child Nutrition Coordinator 601-693-1683

The district has implemented procedures that require two people to sign all cash collections of their daily reconciliation reports.

Finding 04-7.

Corrective Action Plan Details

Regena Ford, Director of Special Education 601-693-1683

The district has implemented procedures that require the district to request funds in a manner that will allow for the disbursement of federal funds in a timely manner.