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LAUREL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

LAUREL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
M.C. Princy Harrison, CPA, CGFM
Julie M. Brown, CPA

Michael E. Novoa, CPA
Neal Bumpus, CPA

H. I. Holt, CPA
Founder (1915 - 1997)

Members:
American Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

Division of CPA Firms
Private Companies Practice Section

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

October 14, 2005

Superintendent and School Board
Laurel School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005, on our consideration of the Laurel School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should

be read in conjunction with this report in considering the results of our audit.

Superintendent and School Board
Laurel School District
Page two

The Management's Discussion and Analysis on pages 4 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 41 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 an opinion on the financial statements that collectively comprise the Laurel 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. 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.



Holt & Associates, PLLC

LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the Laurel 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.

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,530,284, which represents a 14.78% increase from FY2004.
- General revenues were \$ 19,107,664, or 73.45% of total revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,906,947 or 26.55% of total revenues.
- The District had \$24,484,327 in expenses; only \$ 520,499 of these expenses were offset by program specific charges for services, while \$6,386,448 in expenses were offset by grants or contributions. General revenues of \$19,107,664 were adequate to cover the additional expenses.
- Being the largest of the major funds, the General Fund had \$17,943,517 in revenues and \$17,059,792 in expenditures. The General Fund's fund balance increased \$896,420 over the prior year.
- Capital assets, net of accumulated depreciation, amounted to \$4,878,188.
- Long-term debt amounted to \$2,092,229.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively.

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

The basic governmental fund financial statements can be found on pages 19 - 22 of this report.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 23.

Proprietary funds. The Laurel School District has no proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 -36 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 38 - 40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 43 - 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$11,881,700 as of June 30, 2005.

By far the largest portion of the District's net assets (25.79%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases 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.

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

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

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

	<u>FY04 Amount, as restated</u>	<u>FY05 Amount</u>
Current assets	\$ 8,039,606	\$ 9,334,478
Capital assets, net	<u>5,080,376</u>	<u>4,878,188</u>
Total assets	\$ <u>13,119,982</u>	\$ <u>14,212,666</u>
Current liabilities	\$ 680,826	\$ 238,737
Long-term debt outstanding	<u>2,087,740</u>	<u>2,092,229</u>
Total liabilities	\$ <u>2,768,566</u>	\$ <u>2,330,966</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 2,770,376	\$ 3,064,188
Restricted	4,030,938	4,298,412
Unrestricted	<u>3,550,102</u>	<u>4,519,100</u>
Total net assets	\$ <u>10,351,416</u>	\$ <u>11,881,700</u>

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

- The district retired \$193,000 in General Obligation bonds and \$303,000 in 3 Mill/10 Year notes.

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

Changes in net assets. From the Statement of Activities, the District's total revenues for the fiscal year ended June 30, 2005 were \$26,014,611. The total cost of all programs and services was \$24,484,327. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2004 and 2005.

	<u>FY04</u> <u>Amount</u>	<u>FY05</u> <u>Amount</u>
Revenues:		
Program revenues	\$5,982,411	\$6,906,947
General revenues	<u>18,275,643</u>	<u>19,107,664</u>
Total revenues	<u>24,258,054</u>	<u>26,014,611</u>
Expenses:		
Instruction	12,827,013	13,586,860
Support services	8,593,641	9,332,786
Non-instructional	1,534,174	1,506,926
Interest on long-term liabilities	<u>107,304</u>	<u>57,755</u>
Total expenses	<u>23,062,132</u>	<u>24,484,327</u>
Increase in net assets	<u>\$ 1,195,922</u>	<u>\$1,530,284</u>

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

	FY 04		FY 05	
	Total FY04 <u>Expenses</u>	Net(Expense) <u>Revenue</u>	Total FY05 <u>Expenses</u>	Net(Expense) <u>Revenue</u>
Instruction	\$12,827,013	\$(10,085,030)	\$13,586,860	\$(10,353,610)
Support services	8,593,641	(6,933,751)	9,332,786	(7,365,035)
Non-instructional	1,534,174	46,364	1,506,926	199,020
Interest on L.T. liabilities	<u>107,304</u>	<u>(107,304)</u>	<u>57,755</u>	<u>(57,755)</u>
Total expenses	<u>\$23,062,132</u>	<u>\$ (17,079,721)</u>	<u>24,484,327</u>	<u>\$(17,577,380)</u>

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

- Net cost of governmental activities (\$17,577,380) was financed by general revenue, which consists primarily of Ad Valorem taxes (\$7,486,500) and state unrestricted revenue (\$10,748,436). The Mississippi Adequate Education Program provides the largest portion of unrestricted state funds (\$10,222,175) with other state grants categorized as Homestead Exemption, Education Enhancement Funds and Ad Valorem Tax Reduction Grant.

- Investment earnings accounted for \$194,535 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 fiscal year's end.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its Balance Sheet for Governmental Funds reported a combined fund balance of \$9,095,741, an increase of \$1,240,961 due primarily to an excess of revenues over expenditures in the General Fund as well as the receipt of \$644,226 in 16th Section Principal fund revenues. \$4,643,194 or 51% of the fund balance constitutes unreserved and undesignated fund balance in the General Fund, which is available for spending at the District's discretion. Additional fund balances of \$1,993,627 are held by special funds, capital funds and debt service funds and are available to be expended for purposes set forth by the granting authorities, school board discretion or state law. The Permanent Fund has a balance of \$2,364,182 which can be invested or borrowed for the purposes of constructing or renovating facilities or buying school buses. Borrowing from the Permanent Fund, however, would result in a direct decrease in the fund balance of the District Maintenance Fund since the entry must be booked as an advance between the Permanent Fund and the District Maintenance even though the repayment, according to statute, could be made over several years. The remaining fund balance of \$94,738 or 1%, is reserved or designated for inventory (\$17,671) and advances to other funds (\$77,067) and is

not available for spending because funds have already been committed.

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

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 \$896,036 a result of revenues that exceeded expenditures by \$896,420 and prior period adjustments of (\$384). The district received \$191,797 less in Ad Valorem revenue than had been budgeted or requested. The millage levied (53.00 mills for operations) remained the same as in FY 2004.

The fund balance of Other Governmental Funds showed an increase of \$344,541 over FY04 audited figures, which was a result of revenues that exceeded expenditures by \$347,618 and an decrease in the reserve for inventory of \$3,077. The excess of revenues over expenditures was due primarily to the increased revenues received from Sixteenth Section Land allocations. Another increased fund balance included the Child Nutrition Program, which grew by \$143,153.

BUDGETARY HIGHLIGHTS

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

- Revenue from local sources in the final General Fund budget was \$165,475 above original budget estimates due, primarily, to tax base growth and increased interest rates on investments. Tax revenues exceeded the original budget by \$55,007 and interest income exceeded expectations by \$68,559. Less e-rate funds were received than had been originally budgeted, creating a negative federal source variance from the original to final budgets. Overall, revenues in the final budget had a positive variance of \$132,518, representing seven-tenths of one percent variance from the original General Fund budget.

Instructional expenditures in the General Fund were 1.00% less in the final budget than the original budget while Support Service expenditures budgeted were 6.40% less in the final budget compared to the original budget. The district suffered some attrition, had some staff on unpaid military leave and did not fill some vacant budgeted slots. The administration had some success in its concerted effort to reduce and control expenditures.

Title I (Fund 2211) final budget compared to the original budget increased by \$104,594. The original budget was an estimate because actual allocations were not known at the time of the original budget's adoption. The higher actual allocation was budgeted later in the year before being amended at year's end.

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

The Dropout Prevention Fund (2914) had \$25,592 more revenue in the final budget than in the original budget. Only an estimate of available funding was known at the adoption of the original budget. Expenditures also increased in the final budget by \$25,592, with more being spent on instruction and less being spent on support services.

The 16th Section Permanent/Principal Fund's final budget exceeded the original budget by \$13,234 because of an increase in the amount of interest earned and transferred to the Interest Fund attributable to higher investment rates. Actual revenue, most of which was pro-rata revenue received from the Jones County School District in late August, was \$644,266, which was \$313,814 more than the final budget prepared in early August. These revenues are determinable prior to closing the year but never prior to preparing the final budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$10,692,236, including school buildings, buses, other school vehicles and furniture and equipment, an amount representing an increase of \$9,752 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$5,814,048 and total depreciation expense for the year was \$228,274, resulting in total net assets of \$4,878,188.

Additional information of the District's capital assets can be found in Note 5 on page 32 of this report.

Debt Administration. At June 30, 2005, the District had \$2,092,229 in general obligation bonds and other long-term debt outstanding, of which \$481,000 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on pages 33-35 of this report.

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

CURRENT ISSUES

The Laurel School District is more financially stable than at any time in the past two decades. The District has a fund balance in its District Maintenance Fund of over \$4 million. Although the MS Department of Education and the Office of the State Auditor recommend that districts maintain a fund balance in the District Maintenance Fund that is at least 5% of annual revenues, Laurel's reserves were 24.62% of FY05 revenues. Operational millage has been 53.00 since FY03 but will change to 53.98 mills for FY06. Millage for debt was 3.98 in FY05 but will fall to 3.79 in FY06. The assessed valuation of the district for FY05 showed little, if any, net growth over FY04, but grew almost 7.44 million for FY06, an increase of over five percent. The construction of Lowe's home and garden department store, completed in FY05, will hit the tax rolls in calendar year 2006 and should result in significant growth in FY07.

A concern facing the district's financial health in future years is the stability of the funding of the MS Adequate Education Program. In FY04, the MAEP was fully funded for the first time. This funding was short-lived as the MAEP and the cost of employees' health insurance was under-funded statewide by the Legislature in FY05. Because of this under-funding, Laurel's MAEP funding for FY06 will again be substantially below the cost of the mandated increases for teacher salaries and employee health insurance. This under-funding reduces our ability to make some discretionary expenditures, to maintain, enhance or upgrade facilities, hire staff, or give salary increases to existing staff. Future under-fundings of this magnitude will undermine the "adequate education" funding concept of the MAEP formula and may severely impede the District's capital improvement plans and may require the District to spend current reserves for daily operating expenditures. Another concern involves the current "study" of the MAEP formula. It is not known whether attempts will be made by the legislature to reward fast-growing districts, perhaps reducing funds to districts that are not experiencing growth.

Another concern that may affect funding is the financial losses to the state treasury caused by Hurricane Katrina. The magnitude of the storm's impact on state revenues or expenditures is yet to be determined. Also unknown is how MAEP funds will be directed or, perhaps, re-directed to districts who have, at least temporarily, lost large numbers of students who were displaced by the storm or who have lost ability to generate ad valorem revenue due to destruction to businesses, homes or infrastructure.

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

Student enrollment in the District was approximately 3100 students in FY04 and FY05 and is expected to remain near that figure in FY06 and subsequent years. The budget for FY06 has taken into account this projected enrollment when addressing both funding and staffing issues.

One matter that continues to either affect or be affected by the financial status in FY05 and future years is the age and condition of most of the district's schools. The need for capital improvements has been an ongoing discussion for years by the administration and school board. The newest school (Laurel High School) is forty-three years old while the oldest (Jones Middle School) is seventy-eight years old. The Laurel School District spent over \$700,000 of District Maintenance and capital improvement funds on repairs and renovations in FY05. Projects completed included the renovation and modernization of all of the bathrooms at Laurel High School. Projects ongoing at the end of FY05 included the complete renovation of all bathrooms at Nora Davis and Oak Park Elementary schools using district funds, 16th Section Interest funds and other funds that had been earmarked for renovations. These bathroom renovations were completed in FY06, only days prior to the start of school. The district continues to try to upgrade facilities as funds become available or are identified as surplus. However, to address the majority of the capital improvements needed, the Laurel School District must secure significant long-term financing through whatever means may be possible. On September 30, 2003, a \$20 million dollar bond issue was defeated by only eight votes. On September 28, 2004, a \$21.5 million dollar bond issue failed to pass when 48% voted against the issue. The Superintendent, Dr. Glenn M. McGee, Ed.D., the Board and the administration remain committed, however, to finding ways and means to upgrade and update facilities across the district.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Laurel School District , P. O. Box 288, Laurel, MS 39441.

LAUREL SCHOOL DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LAUREL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

EXHIBIT A

	<u>Primary Government Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 6,330,435
Due from other governments	690,369
Inventories and prepaid items	17,671
Restricted assets	2,296,003
Capital assets, net	<u>4,878,188</u>
TOTAL ASSETS	<u>\$ 14,212,666</u>
 LIABILITIES:	
Accounts payable and accrued liabilities	\$ 200,920
Deferred revenue	37,817
Long-term liabilities (Due within one year)	
Capital related liabilities	481,000
Long-term liabilities (Due beyond one year)	
Capital related liabilities	1,333,000
Non-capital related liabilities	<u>278,229</u>
TOTAL LIABILITIES	<u>2,330,966</u>
 NET ASSETS:	
Investment in capital assets (net of related debt)	3,064,188
Restricted net assets:	
Expendable:	
School-Based Activities	1,465,441
Debt Service	426,135
Capital Improvements	29,052
Unemployment Benefits	81,781
Non-expendable:	
Sixteenth section	2,296,003
Unrestricted:	<u>4,519,100</u>
TOTAL NET ASSETS	<u>\$ 11,881,700</u>

The notes to the financial statements are an integral part of this statement. 16

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

EXHIBIT B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 13,586,860	\$ 269,430	\$ 2,573,529	\$ 390,291	\$ (10,353,610)
Support Services	9,332,786	-	\$ 1,767,751	200,000	(7,365,035)
Non-instructional	1,506,926	251,069	\$ 1,454,877	-	199,020
Interest and other expenses on long-term liabilities	57,755	-	\$ -	-	(57,755)
Total governmental activities	24,484,327	520,499	5,796,157	590,291	(17,577,380)
General Revenues:					
Taxes:					
					6,963,194
					523,306
Unrestricted grants & contributions:					
					10,748,436
					34,298
					194,535
					637,258
					6,637
					19,107,664
					1,530,284
					10,351,800
					(384)
					10,351,416
					\$ 11,881,700

The notes to the financial statements are an integral part of this statement. 17

LAUREL SCHOOL DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS

The notes to the financial statements are an integral part of this statement. 18

EXHIBIT C

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Title I Fund	Dropout Prevention Grant Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS:						
Cash and cash equivalents	\$ 4,420,944	\$ -	\$ -	\$ 1,695,575	\$ 1,909,492	\$ 8,026,011
Due from other governments	237,442	115,134	83,440	600,427	250,553	1,286,996
Due from other funds	317,100	1,368	-	-	37,620	356,088
Advances to other funds	-	-	-	77,067	-	77,067
Inventories and prepaid items	-	-	-	-	17,671	17,671
TOTAL ASSETS	\$ 4,975,486	\$ 116,502	\$ 83,440	\$ 2,373,069	\$ 2,215,336	\$ 9,763,833
LIABILITIES & FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 168,907	\$ 8,580	\$ 963	\$ -	\$ 22,470	\$ 200,920
Due to other funds	9,251	107,922	82,477	8,888	143,751	352,289
Advances from other funds	77,067	-	-	-	-	77,067
Deferred revenue	-	-	-	-	37,817	37,817
Total Liabilities	255,225	116,502	83,440	8,888	204,038	668,093
Fund Balances:						
Reserved For:						
Advances	77,067	-	-	-	-	77,067
Inventory	-	-	-	-	17,671	17,671
Capital Projects Funds	-	-	-	-	29,052	29,052
Debt Service Funds	-	-	-	-	426,135	426,135
Unreserved:						
Undesignated, reported in:						
General Fund	4,643,194	-	-	-	-	4,643,194
Special Revenue Funds	-	-	-	-	1,538,440	1,538,440
Permanent Funds	-	-	-	2,364,181	-	2,364,181
Total Fund Balances	4,720,261	-	-	2,364,181	2,011,298	9,095,740
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,975,486	\$ 116,502	\$ 83,440	\$ 2,373,069	\$ 2,215,336	\$ 9,763,833

The notes to the financial statements are an integral part of this statement. 19

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

EXHIBIT C-1

Total Fund Balance - Governmental Funds	\$	9,095,741
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Amounts reported for net assets in the statement of net assets (Exhibit A) are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Capital assets net of accumulated depreciation as of 7-1-04	\$	5,080,376	
Plus capital outlay expenditures made during year		29,453	
Less depreciation expense recorded during year		(228,274)	
Less loss on disposal of assets		<u>(3,367)</u>	4,878,188

2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

(2,092,229)

Total Net Assets - Governmental Activities

\$ 11,881,700

LAUREL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT D

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Title I Fund	Dropout Prevention Grant Fund	16th Section Principal Fund	Other Governmental Funds	
REVENUES						
Local Sources	\$ 7,367,405	\$ -	\$ -	\$ 37,752	\$ 806,381	\$ 8,211,538
State Sources	10,516,857	-	-	-	1,308,006	11,824,863
Federal Sources	59,255	1,257,532	297,739	-	3,729,794	5,344,320
Sixteenth Section Sources	-	-	-	606,474	30,784	637,258
TOTAL REVENUES	17,943,517	1,257,532	297,739	644,226	5,874,965	26,017,979
EXPENDITURES						
Instruction	10,083,911	774,834	73,756	-	2,498,657	13,431,158
Support Services	6,975,881	407,533	219,999	-	1,692,923	9,296,336
Noninstructional Services	-	58,253	-	-	1,434,439	1,492,692
Debt Service:						
Principal	-	-	-	-	496,000	496,000
Interest	-	-	-	-	57,755	57,755
Other	-	-	-	-	-	-
TOTAL EXPENDITURES	17,059,792	1,240,620	293,755	-	6,179,774	24,773,941
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	883,725	16,912	3,984	644,226	(304,809)	1,244,038
OTHER FINANCIAL SOURCES (USES)						
Operating Transfers In	1,045,757	-	-	-	727,811	1,773,568
Operating Transfers Out	(1,033,062)	(16,912)	(3,984)	(43,799)	(675,811)	(1,773,568)
TOTAL OTHER FINANCING SOURCES (USES)	12,695	(16,912)	(3,984)	(43,799)	52,000	-
NET CHANGE IN FUND BALANCES	896,420	-	-	600,427	(252,809)	1,244,038
JULY 1, 2004	3,824,225	-	-	1,763,755	2,267,184	7,855,164
Prior period adjustments	(384)	-	-	-	-	(384)
JULY 1, 2004, as restated	3,823,841	-	-	1,763,755	2,267,184	7,854,780
Increase (decrease) in reserve for inventory	-	-	-	-	(3,077)	(3,077)
FUND BALANCE, JUNE 30, 2005	\$ 4,720,261	\$ -	\$ -	\$ 2,364,182	\$ 2,011,298	\$ 9,095,741

The notes to the financial statements are an integral part of this statement. 21

**LAUREL 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**

EXHIBIT D-1

Net Change in fund balances - governmental funds \$ 1,244,038

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 purchases amounted to \$29,453 and the depreciation expense amounted to \$228,274.	(198,821)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	496,000
3. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(3,367)
4. Increase (decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are increased (decreased) in the Statement of Activities.	(3,077)
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
(Increase) decrease in compensated absences	<u>(4,489)</u>
 Change in net assets of governmental activities	 <u>\$ 1,530,284</u>

**LAUREL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2005**

EXHIBIT E

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,127,481
Due from other funds	<u>16,500</u>
TOTAL ASSETS	<u>1,143,981</u>
LIABILITIES	
Accounts payable and accrued liabilities	1,049,897
Due to other funds	20,299
Due to student clubs	<u>73,785</u>
TOTAL LIABILITIES	<u>\$ 1,143,981</u>

The notes to the financial statements are an integral part of this statement. 23

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

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

A. **Financial Reporting Entity.**

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

B. **Basis of Presentation.**

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

Government-Wide Financial Statements:

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

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)*

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

General Fund – This is a 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.

Title I – This is the fund that accounts for the Title I Federal Program Grant.

Dropout Prevention Grant Fund – This is the fund that accounts for the Dropout Prevention Federal Program Grant.

16th Section Principal Fund – This is the fund that accounts for 16th Section Sources.

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

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)*

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 expendable trusts or 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. The primary sources is revenue received from the State of Mississippi under the authority of the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Mississippi Code Annotated, (1972). Other revenue consists local property taxes levied specifically for debt service.

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)*

G. 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.

H. Capital Assets.

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

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

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

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

** 15 year estimated useful life for relocatable buildings

See Note 5 for details.

I. Long-term liabilities.

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

J. 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.

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

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.

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.

K. 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 further split between designated and undesignated.

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

Reserved for advances – An account used to offset advances recorded in the assets 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 that indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

L. Property Taxes.

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

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

M. Mississippi Adequate Education Program Revenues.

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

N. 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 to do so 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) *CHANGES IN ACCOUNTING STANDARDS*

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No 40, *Deposit and Investment Risk disclosures – an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) *CASH AND CASH EQUIVALENTS*

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,026,011 and \$1,127,481, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$6,330,435 and Restricted Assets - \$2,296,003. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,514,334.

Custodial Credit Risk—Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on the behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$9,514,334 was exposed to custodial risk.

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

(3) *CASH AND CASH EQUIVALENTS*

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,026,011 and \$1,127,481. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$6,330,435 and Restricted Assets - \$2,296,003. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$11,182,650.

Custodial Credit Risk—Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on the behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$11,182,650 was exposed to custodial risk.

(4) *INTERFUND TRANSACTIONS AND BALANCES.*

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 317,100	\$ 9,251
Title I	1,368	107,922
Dropout prevention	0	82,477
Sixteenth section	0	8,888
Non-major funds	37,620	143,751
Agency funds	<u>16,500</u>	<u>20,299</u>
Total funds	<u>\$ 372,588</u>	<u>\$ 372,588</u>

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and cash balances.

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Major funds:		
General fund	\$ 0	\$ 77,067
Sixteenth section	<u>77,067</u>	<u>0</u>
Total funds	<u>\$ 77,067</u>	<u>\$ 77,067</u>

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

(4) *INTERFUND TRANSACTIONS AND BALANCES (CONTINUED).*

Sixteenth section principal loans payable.

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

Year Ending	Principal	Interest	Total
<u>June 30</u>			
2006	<u>77,067</u>	<u>3,083</u>	<u>80,150</u>
Total	<u>\$ 77,067</u>	<u>3,083</u>	<u>80,150</u>

C. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 1,045,757	\$ 1,033,062
Title I	0	16,912
Sixteenth section	<u>0</u>	<u>43,799</u>
Total funds	<u>\$ 1,733,568</u>	<u>\$ 1,773,568</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

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

(5) *CAPITAL ASSETS*

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

	Balance 7/1/2004	Additions	Retirements	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital</u>					
Land	\$ 566,683	\$ -	\$ -	\$ -	\$ 566,683
Total non-depreciable	<u>566,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>566,683</u>
<u>Depreciable capital assets:</u>					
Buildings	5,495,191	-	-	-	5,495,191
Building improvements	2,458,397	-	-	-	2,458,397
Improvements other than buildings	342,882	-	-	-	342,882
Mobile equipment	1,406,312	6,467	7,445	-	1,405,334
Furniture and equipment	413,019	22,986	12,256	-	423,749
Total depreciable capital	<u>10,115,801</u>	<u>29,453</u>	<u>19,701</u>	<u>-</u>	<u>10,125,553</u>
<u>Less accumulated</u>					
Buildings	3,655,516	42,930	-	-	3,698,446
Building improvements	508,215	98,336	-	-	606,551
Improvements other than buildings	40,118	13,715	-	-	53,833
Mobile equipment	1,041,119	49,411	6,701	-	1,083,829
Furniture and equipment	357,140	23,882	9,633	-	371,389
Total accumulated depreciation	<u>5,602,108</u>	<u>228,274</u>	<u>16,334</u>	<u>-</u>	<u>5,814,048</u>
Total depreciable capital assets, net	<u>4,513,693</u>	<u>(198,821)</u>	<u>3,367</u>	<u>-</u>	<u>4,311,505</u>
Governmental activities capital assets, net	<u>\$ 5,080,376</u>	<u>\$ (198,821)</u>	<u>\$ 3,367</u>	<u>\$ -</u>	<u>\$ 4,878,188</u>

The fixed assets above include significant amounts of building improvements that 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.

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

(5) *CAPITAL ASSETS (CONTINUED)*

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 146,913
Support services	68,080
Non-instructional	<u>13,281</u>
 Total depreciation expense	 <u>\$ 228,274</u>

There were no commitments under construction contracts at June 30, 2005.

(6) *LONG-TERM LIABILITIES.*

The following is a summary of changes in general long-term debt and other obligations:

	<u>Balance</u> 7/1/2004	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 6/30/2005	<u>Amounts due</u> within one year
A. General obligation bonds payable	\$ 640,000	\$ -	\$ 193,000	\$ 447,000	\$ 203,000
B. Three mill notes payable	1,670,000	-	303,000	1,367,000	278,000
C. Compensated Absences Payable	<u>273,741</u>	<u>4,488</u>	<u>-</u>	<u>278,229</u>	<u>-</u>
	<u>\$ 2,583,741</u>	<u>\$ 4,488</u>	<u>\$ 496,000</u>	<u>\$ 2,092,229</u>	<u>\$ 481,000</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:

Description	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
General Obligation bonds	2.30%	2/15/03	3/15/08	<u>\$832,000</u>	<u>\$447,000</u>

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

(6) *LONG-TERM LIABILITIES (CONTINUED)*

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	203,000	10,281	213,281
2007	202,000	5,612	207,612
2008	<u>42,000</u>	<u>966</u>	<u>42,966</u>
Total	<u>\$447,000</u>	<u>\$ 16,859</u>	<u>\$463,859</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 .31% of assessed valuations as of August 2004. This debt will be retired from the debt service fund.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State Aid Capital Improvement	1.6-3.0%	5/1/03	9/15/09	<u>\$1,695,000</u>	<u>\$1,367,000</u>

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	278,000	31,557	309,557
2007	284,000	25,511	309,511
2008	290,000	18,475	308,475
2009	298,000	10,608	308,608
2010	<u>217,000</u>	<u>3,255</u>	<u>220,255</u>
Total	<u>\$1,367,000</u>	<u>\$ 89,406</u>	<u>\$1,456,406</u>

This debt will be retired from the debt service fund.

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

(6) *LONG-TERM LIABILITIES (CONTINUED)*

C. Compensated absences payable.

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

(7) *DEFINED BENEFIT PENSION PLAN*

Plan Description. The Laurel 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 Laurel 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 Laurel School District's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$1,375,966, \$1,322,776, and \$1,237,284 respectively, which equaled the required contributions for each year.

(8) *OTHER COMMITMENTS.*

Operating leases:

The school district has several operating leases for the following:

1. Canon IR 5000 copier at Nora Davis Magnet School
2. Canon IR 5000 copiers at Jones Junior High School
3. Canon IR 5000 copier at Mason Elementary School
4. Canon IR5000 copier at Oak Park Elementary School
5. Canon IR5000 copier at Stainton Elementary School
6. Canon IR 5000 copier at Laurel High School
7. Canon IR2200 at Alternative School
8. Ricoh IP I230 Priport copier at Jones Middle School
9. Canon IR5000 copier at Central Office
10. Canon IR5000 copier at Special Education Central Office.
11. Canon IR5000 copier at Maddox/Stainton upper grades.

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

(8) *OTHER COMMITMENTS (CONTINUED)*

Lease expenditures for the year ended June 30, 2005, amounted to \$31,666. Future lease payments for these leases are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2006	34,856
2007	27,924
2008	9,691
2009	<u>265</u>
Total	<u>\$72,736</u>

(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) *PRIOR PERIOD ADJUSTMENTS / EXHIBITS*

A summary of fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. To correct misclassification of Other Receivable payments received in prior year.	(384)

Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balance

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	See Explanation 1 above.	(384)

(10) *PARTICIPATION IN PUBLIC ENTITY RISK POOL*

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

(11) PARTICIPATION IN PUBLIC ENTITY RISK POOL

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool.

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

(12) SUBSEQUENT EVENTS

Hurricane Katrina damaged school property on August 29, 2005. Because of the damage and the loss of essential services, i.e., power, water, and fuel for transportation, the schools could not reopen until September 12, 2005. The preliminary estimates of the damage are not available at this time. However, it is estimated that insurance coverage will be adequate.

LAUREL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE 1a

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	REVENUES				
Local Sources	\$ 7,199,787	\$ 7,365,262	\$ 7,367,405	\$ 165,475	\$ 2,143
State Sources	10,511,724	10,526,821	10,516,857	15,097	(9,964)
Federal Sources	<u>97,345</u>	<u>49,292</u>	<u>59,255</u>	<u>(48,053)</u>	<u>9,963</u>
TOTAL REVENUES	<u>17,808,856</u>	<u>17,941,375</u>	<u>17,943,517</u>	<u>132,519</u>	<u>2,142</u>
EXPENDITURES					
Instruction	10,174,065	10,080,315	10,083,911	(93,750)	3,596
Support Services	<u>7,454,772</u>	<u>6,983,831</u>	<u>6,975,881</u>	<u>(470,941)</u>	<u>(7,950)</u>
TOTAL EXPENDITURES	<u>17,628,837</u>	<u>17,064,146</u>	<u>17,059,792</u>	<u>(564,691)</u>	<u>(4,354)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>180,019</u>	<u>877,229</u>	<u>883,725</u>	<u>697,210</u>	<u>6,496</u>
OTHER FINANCIAL SOURCES (USES)					
Indirect Costs	118,829	92,093	92,093	(26,736)	-
Operating Transfers In	891,040	953,664	953,664	62,624	-
Operating Transfers Out	<u>(980,038)</u>	<u>(1,032,115)</u>	<u>(1,033,062)</u>	<u>(52,077)</u>	<u>(947)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>29,831</u>	<u>13,642</u>	<u>12,695</u>	<u>(16,189)</u>	<u>(947)</u>
NET CHANGE IN FUND BALANCES	<u>209,850</u>	<u>890,871</u>	<u>896,420</u>	<u>681,021</u>	<u>5,549</u>
FUND BALANCES:					
July 1, 2004	3,860,767	3,824,225	3,824,225	(36,542)	-
Prior period adjustments	<u>-</u>	<u>(384)</u>	<u>(384)</u>	<u>(384)</u>	<u>-</u>
July 1, 2004, as restated	3,860,767	3,823,841	3,823,841	(36,926)	-
FUND BALANCE, JUNE 30, 2005	<u>\$ 4,070,617</u>	<u>\$ 4,714,712</u>	<u>\$ 4,720,261</u>	<u>\$ 644,095</u>	<u>\$ 5,549</u>

The notes to the required supplementary information 39 are an integral part of this statement.

**LAUREL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND
FOR THE YEAR ENDED JUNE 30, 2005**

SCHEDULE 1b

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	REVENUES				
Local Sources	\$ -	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-	-
Federal Sources	<u>1,152,938</u>	<u>1,257,532</u>	<u>1,257,532</u>	<u>104,594</u>	<u>-</u>
TOTAL REVENUES	<u>1,152,938</u>	<u>1,257,532</u>	<u>1,257,532</u>	<u>104,594</u>	<u>-</u>
EXPENDITURES					
Instruction	757,965	774,834	774,834	16,869	-
Support Services	313,982	407,533	407,533	93,551	-
Noninstructional Services	59,293	58,253	58,253	(1,040)	-
Facilities Acquisition & Const.	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	<u>1,131,240</u>	<u>1,240,620</u>	<u>1,240,620</u>	<u>109,380</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>21,698</u>	<u>16,912</u>	<u>16,912</u>	<u>(4,786)</u>	<u>-</u>
OTHER FINANCIAL SOURCES (USES)					
Sale of property	-	-	-	-	-
Indirect Costs	(21,698)	(16,912)	-	-	16,912
Operating Transfers In	-	-	-	-	-
Other financing sources	-	-	-	-	-
Other financing uses	-	-	-	-	-
Operating Transfers Out	-	-	(16,912)	-	(16,912)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(21,698)</u>	<u>(16,912)</u>	<u>(16,912)</u>	<u>4,786</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE, JULY 1, 2004,	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the required supplementary information 40 are an integral part of this statement.

**LAUREL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE DROPOUT PREVENTION GRANT FUND
FOR THE YEAR ENDED JUNE 30, 2005**

SCHEDULE 1c

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local Sources	\$ -	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-	-
Federal Sources	<u>272,148</u>	<u>297,739</u>	<u>297,739</u>	<u>25,591</u>	<u>-</u>
TOTAL REVENUES	<u>272,148</u>	<u>297,739</u>	<u>297,739</u>	<u>25,591</u>	<u>-</u>
EXPENDITURES					
Instruction	25,611	73,756	73,756	48,145	-
Support Services	242,489	219,999	219,999	(22,490)	-
Noninstructional Services	-	-	-	-	-
Facilities Acquisition & Const.	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
TOTAL EXPENDITURES	<u>268,100</u>	<u>293,755</u>	<u>293,755</u>	<u>25,655</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,048</u>	<u>3,984</u>	<u>3,984</u>	<u>(64)</u>	<u>-</u>
OTHER FINANCIAL SOURCES (USES)					
Sale of property	-	-	-	-	-
Indirect Costs	(4,048)	(3,984)	-	-	3,984
Operating Transfers In	-	-	-	-	-
Other financing sources	-	-	-	-	-
Other financing uses	-	-	-	-	-
Operating Transfers Out	-	-	(3,984)	-	(3,984)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,048)</u>	<u>(3,984)</u>	<u>(3,984)</u>	<u>64</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE, JULY 1, 2004,	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the required supplementary information 41 are an integral part of this statement.

**LAUREL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL 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 budgets and the actual data.

(2) Budget amendments and revisions.

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

LAUREL SCHOOL DISTRICT
SUPPLEMENTAL INFORMATION

**LAUREL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Passed-through Mississippi Department of Education:		
Non-Cash Assistance:		
Food distribution	10.550	\$ <u>88,686</u>
Child nutrition cluster		
School breakfast program	10.553	358,867
National school lunch program	10.555	962,321
Summer food service program for children	10.559	<u>30,184</u>
Total child nutrition cluster		<u>1,351,372</u>
Total U.S. Department of Agriculture		<u>1,440,058</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>		
Passed-Through Mississippi Department of Education:		
Technology opportunities	11.552	<u>59,255</u>
Total U.S. Department of Commerce		<u>59,255</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Twenty-first century community learning centers	84.287	209,410
Dropout prevention programs	84.360A	<u>297,740</u>
Total		<u>507,150</u>
Passed-Through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,257,532
Title I - Coop program	84.010A	12,990
Migrant education - basic state grant program	84.011	66,794
Vocational education - basic grants to states	84.048	59,061
Safe and drug free schools and communities - state grants	84.186	36,843
Eisenhower professional development state grants	84.281	277,889
Twenty-first century community learning centers	84.287	206,953
Innovative education program strategies	84.298	15,776
Technology Literacy Challenge Fund Grants	84.318	26,579
Comprehensive school reform demonstration	84.332	63,168
Reading first state grants	84.357	588,223
Rural education achievement program	84.358	113,818
English language acquisition grants	84.365	<u>3,152</u>
Total		<u>2,728,778</u>

**LAUREL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special Education Cluster:		
Special education - grants to states	84.027	554,830
Special education - preschool grants	84.173	<u>10,290</u>
Total		<u>565,120</u>
Total Passed-Through MDE		<u>3,293,898</u>
Total U.S. Department of Education		<u>3,801,048</u>
 <u>Corporation for National and Community Service</u>		
Passed-through the Mississippi Department of Education:		
Learn and serve America - school and community based programs	94.004	<u>7,012</u>
Total Corporation for National and Community Service		<u>7,012</u>
 Total for all Federal Awards		 <u>\$ 5,307,373</u>

NOTES TO THE SCHEDULE:

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

LAUREL 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	\$ 18,784,652	\$ 12,334,928	\$ 2,031,382	\$ 4,418,342
Other	<u>5,989,289</u>	<u>1,096,230</u>	<u>268,171</u>	<u>4,624,888</u>
Total	<u>\$ 24,773,941</u>	<u>\$ 13,431,158</u>	<u>\$ 2,299,553</u>	<u>\$ 9,043,230</u>

Total number of students 2,851.3

Cost per student \$ 8,689 \$ 4,711 \$ 806 \$ 3,172

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

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

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

Other - includes all expenditure functions not included in Instruction or Administrative

LAUREL SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
M.C. Princy Harrison, CPA, CGFM
Julie M. Brown, CPA

Michael E. Novoa, CPA
Neal Bumpus, CPA

H. I. Holt, CPA
Founder (1915 - 1997)

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Private Companies Practice Section

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

October 14, 2005

Superintendent and School Board
Laurel School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Laurel School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Superintendent and School Board
Laurel School District
Page two

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.



Holt & Associates, PLLC

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

October 14, 2005

Superintendent and School Board
Laurel School District

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

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

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

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



Holt & Associates, PLLC

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

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
M.C. Princy Harrison, CPA, CGFM
Julie M. Brown, CPA

Michael E. Novoa, CPA
Neal Bumpus, CPA

H. I. Holt, CPA
Founder (1915 - 1997)

Members:
American Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

Division of CPA Firms
Private Companies Practice Section

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

October 14, 2005

Superintendent and School Board
Laurel School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Laurel School District as of and for the year ended June 30, 2005, which collectively comprise Laurel School District's basic financial statement and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), state 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 laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district had no classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of financial statements disclosed the following instance of noncompliance with other state laws and regulations. Our finding, recommendation and your response is as follows:

Finding #1:

According to Miss. Code Section 29-3-117, the district is required to obtain board of education approval for all operating transfers to the maintenance or building fund from the sixteenth section interest fund. Laurel School District had one operating transfer of this type, but did not obtain board approval to move the money.

Recommendation:

Before making the operating transfer out of the sixteenth section interest fund, obtain board approval and record the approval in the minutes.

Response:

Although there was no indication in the board minutes, the school board was aware that the 16th Section Interest Fund was the largest of several sources of funding included in the FY05 budget to be spent on building renovation projects during FY05. Specific discussion took place prior to the adoption of the original FY05 budget explaining that only inter-fund transfers to the District Maintenance Fund and other budgets could be budgeted by the 16th Section Interest Fund. Further it was explained that payments to contractors for renovations could not be made directly from the 16th Section Interest Fund. Thus, the school board was aware of the planned transfer and use of these funds. In the future, however, 16th Section Interest funds will be transferred only after specific order that is subsequently recorded in the board's minutes.

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

This report is intended for the information 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.



Holt & Associates, PLLC

LAUREL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAUREL SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|--|--------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by section __.510(a) of Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. <u>Title I I- Eisenhower: CFDA #: 84.281</u> | |

LAUREL SCHOOL DISTRICT

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

- b. 21st Century Community Learning Centers: CFDA #: 84.287
 - c. Reading First State Grants: CFDA #: 84.357
 - d. Title VI Rural and Low-Income School Grant: CFDA #: 84.358
-
- 8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
 - 9. Auditee qualified as a low-risk auditee? Yes
 - 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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

LAUREL SCHOOL DISTRICT
AUDITEE'S CORRECTIVE ACTION PLAN
AND/OR
SCHEDULE OF PRIOR AUDIT FINDINGS



Laurel School District

"Come Explore With Us!"

Financial & Compliance Audit Division

As required by Section __.315 (b) of OMB Circular A-133, the Laurel School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

Not Applicable

As required by Section __.315(b) of OMB Circular A-133, the Laurel School district has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005:

Not Applicable