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LAWRENCE COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2005**

LAWRENCE COUNTY SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

October 6, 2005

Superintendent and School Board
Lawrence County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the Lawrence County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Superintendent and School Board
Lawrence County School District
Page Two

The Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison information on pages 36 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Holt & Associates, PLLC

Holt & Associates, PLLC

LAWRENCE COUNTY SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Year Ended June 30, 2005**

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,002,164 which represents increase of 11.8%.
- General revenues account for \$12,860,471, or 68.5% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,900,282 in 2005 or 31.5% of total revenues.
- Expenses amounted to \$17,758,589; only \$5,900,282 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,308,471 were adequate to provide for these programs.
- Among major funds, the General Fund had \$13,163,742 in revenues and \$11,932,942 in expenditures. The General Fund's fund balance increased \$158,150.
- Capital assets, net of accumulated depreciation, decreased by \$209,590.
- Long-term debt decreased by \$160,856. The decrease was due to principal payments made during the fiscal year on existing debt and a decrease in compensated absences payable.

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.

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

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 12 - 13 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 16 and 18, respectively.

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

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 15 - 18 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 34 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 36 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 40- 41 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 \$9,502,138 as of June 30, 2005 and \$8,502,307 as of June 30, 2005.

By far the largest portion of the District's net assets at June 30, 2005 \$4,692,729 (49%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these

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

capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	<u>2005</u>	<u>2004</u>
Current assets	\$ 6,083,838	\$ 4,921,953
Capital assets, net	<u>4,978,966</u>	<u>5,188,556</u>
Total assets	<u>\$11,062,804</u>	<u>\$10,110,509</u>
Current liabilities	\$ 1,200,015	\$ 1,078,382
Long-term debt outstanding	<u>360,651</u>	<u>529,820</u>
Total liabilities	<u>\$ 1,560,666</u>	<u>\$ 1,608,202</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 4,692,729	\$ 4,921,556
Restricted	2,037,458	1,521,187
Unrestricted	<u>2,771,951</u>	<u>2,059,564</u>
Total net assets	<u>\$ 9,502,138</u>	<u>\$ 8,502,307</u>

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

- The principal retirement of \$163,186 of long-term debt.
- The net addition of \$66,565 in capital assets from the purchases of physical education equipment and computers.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 and 2004 were \$18,760,753 and \$16,741,925 respectively. The total cost of all programs and services was \$17,758,589 in 2005 and \$16,218,682 in 2004. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

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

	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues	\$ 5,900,282	\$ 4,433,023
General revenues	<u>12,860,471</u>	<u>12,308,902</u>
Total revenues	<u>18,760,753</u>	<u>16,741,925</u>
Expenses:		
Instruction	10,509,359	9,924,293
Support services	6,057,360	5,024,260
Non-instructional	1,130,414	1,220,505
Sixteenth section	38,097	5,481
Facilities acquisition and construction	0	12,674
Interest on long-term liabilities	<u>23,359</u>	<u>31,469</u>
Total expenses	<u>17,758,589</u>	<u>16,218,682</u>
Increase in net assets	<u>\$ 1,002,164</u>	<u>\$ 523,243</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.

	<u>2005</u>		<u>2004</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$10,509,359	\$ (8,251,741)	\$ 9,924,293	\$ (8,210,520)
Support services	6,057,360	(4,062,976)	5,024,260	(3,237,093)
Non-instructional	1,130,414	106,024	1,220,505	(314,691)
Sixteenth section	38,097	373,745	5,481	20,788
Facilities acquisition and construction	0	0	12,674	(12,674)
Interest on long-term liabilities	<u>23,359</u>	<u>(23,359)</u>	<u>31,469</u>	<u>(31,469)</u>
Total expenses	<u>\$17,758,589</u>	<u>\$(11,858,307)</u>	<u>\$16,218,682</u>	<u>\$(11,785,659)</u>

Net cost of governmental activities in 2005 (\$11,858,307) was and in 2004 (\$11,785,659) financed by general revenue, which is made up of primarily property taxes in 2005 and 2004 of \$3,799,102 and \$3,620,560, respectively, and state revenue of in 2005 \$8,877,382 and \$8,421,229 in 2004.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$5,068,827, an increase of \$1,043,384 due primarily to some positions not being filled, actual attorney fees less than budgeted, delay in building and maintenance projects and a delay in the purchase of a maintenance truck. Of the fund balance, \$5,027,867 or 99% constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$40,960 or 1%, is reserved or designated to indicate that it is not available for spending because it has already been committed. \$40,960 is inventory of food and supplies in the School Food Service Fund.

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 \$158,150 after a \$500,000 transfer to a capital projects fund. This unanticipated transfer was possible due to the General Fund revenue exceeding estimates in the area of new property collections, the interest revenue, and an omission in budgeting revenue under the Master Teacher program, on the revenue side. Expenses were also less than anticipated due to lower expenses in the Special Education and Vocational transfers, a general conservative approach to any expense that could be eliminated or delayed, significantly lower expenditures for property and casualty insurance, and another delay in the purchase of the transportation/maintenance service truck.

BUDGETARY HIGHLIGHTS

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

- General Fund Interest was almost \$83,000.
- Property & casualty insurance expenditures dropped and were \$45,000 below budget.
- The purchase of a transportation/maintenance service truck was postponed to another year.
- Fuel expenses exceeded estimates, but were absorbed by savings elsewhere.

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.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets as of June 30, 2005 were \$11,796,751 including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$66,565. Total accumulated depreciation as of June 30, 2005 was \$6,817,785 and total depreciation expense for the year was \$290,826, resulting in total net assets of \$4,979,966.

Additional information of the District's capital assets can be found in Note 6 on page 30 of this report.

Debt Administration. At June 30, 2005, the District had \$423,586 in general obligation bonds and other long-term debt outstanding, of which \$171,498 is due within one year.

Additional information of the District's long-term debt can be found in Note 7 on page 31 - 32 of this report.

CURRENT ISSUES

The Lawrence County School District is financially stable. The District is proud of its community support of the public schools. With many funding questions at the state level, the District has chosen to postpone non-essential repairs and construction.

The District has committed itself to financial excellence for many years. The millage has increased only 3.8 mills from 1992 to 2005. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded, as evidence by the State Auditor's *Certificate Recognizing Achievement in Reporting*. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will remain flat. The budget for the next fiscal year adds two elementary positions, but is a responsible and conservative budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of Lawrence County School District, 346 Thames E. Jolly Drive, Monticello, MS 39654-9301.

LAWRENCE COUNTY SCHOOL DISTRICT

Government-Wide Financial Statements

LAWRENCE COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	Primary Government
	Governmental
	Activities
Assets	
Cash and cash equivalents	\$ 5,496,451
Due from other governments	496,724
Other receivables, net	3,997
Inventories	40,960
Restricted assets	45,706
Capital assets, net	4,978,966
Total Assets	\$ 11,062,804
Liabilities	
Accounts payable and accrued liabilities	\$ 959,874
Deferred revenue	36,452
Performance bonds payable	18,685
Interest payable on long-term liabilities	13,506
Long-term liabilities, due within one year	
Capital related liabilities	65,000
Non-capital related liabilities	106,498
Long-term liabilities, due beyond one year	
Capital related liabilities	140,000
Non-capital related liabilities	220,651
Total Liabilities	\$ 1,560,666
Net Assets	
Investment in capital assets, net of related debt	\$ 4,692,729
Restricted net assets:	
Expendable:	
School - based activities	303,585
Debt service	253,219
Capital Improvements	1,318,451
Forestry improvements	67,897
Unemployment benefits	48,600
Non-expendable:	
Sixteenth section	45,706
Unrestricted	2,771,951
Total Net Assets	\$ 9,502,138

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

LAWRENCE COUNTY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 10,509,359	\$ 343,219	\$ 1,914,399	\$ -	\$ (8,251,741)
Support services	6,057,360	84,794	1,909,590	-	(4,062,976)
Non-instructional	1,130,414	228,381	1,008,057	-	106,024
Sixteenth section	38,097	411,842	-	-	373,745
Facilities acquisition and construction					
Interest and other expenses on long-term liabilities	23,359	-	-	-	(23,359)
Total governmental activities	\$ 17,758,589	\$ 1,068,236	\$ 4,832,046	\$ -	\$ (11,858,307)

General Revenues:

Taxes:

General purpose levies 3,701,005

Debt purpose levies 98,097

Unrestricted grants and contributions:

State 8,877,382

Federal 35,580

Unrestricted investment earnings

Sixteenth section sources 51,256

Other 97,151

Total General Revenues 12,860,471

Change in Net Assets 1,002,164

Net Assets - Beginning 8,502,307

Prior Period Adjustment (2,333)

Net Assets - Beginning Restated 8,499,974

Net Assets - Ending \$ 9,502,138

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

LAWRENCE COUNTY SCHOOL DISTRICT

Governmental Fund Financial Statements

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

Exhibit C

	<u>Major Funds</u>				<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>General</u> <u>Fund</u>	<u>Title I</u> <u>A-1</u> <u>Fund</u>	<u>School</u> <u>Construction</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	
ASSETS					
Cash and cash equivalents	\$ 1,591,942	\$ -	\$ 1,300,000	\$ 2,604,509	\$ 5,496,451
Investments	-	-	-	45,706	45,706
Due from other governments	183,648	52,447	-	260,629	496,724
Other receivables, net	-	-	-	3,997	3,997
Due from other funds	192,346	-	-	6,700	199,046
Inventories	-	-	-	40,960	40,960
Total Assets	\$ 1,967,936	\$ 52,447	\$ 1,300,000	\$ 2,962,501	\$ 6,282,884
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 702,369	\$ 44,536	\$ -	\$ 212,969	\$ 959,874
Due to other funds	-	7,911	-	191,135	199,046
Deferred revenue	-	-	-	36,452	36,452
Performance Bonds Payable	-	-	-	18,685	18,685
Total Liabilities	702,369	52,447	-	459,241	1,214,057
Fund Balances:					
Reserved for:					
Inventory	\$ -	\$ -	\$ -	\$ 40,960	\$ 40,960
Unreserved:					
Undesignated, reported in:					
General fund	1,265,567	-	-	-	1,265,567
Special Revenue funds	-	-	-	2,209,081	2,209,081
Capital Projects funds	-	-	1,300,000	-	1,300,000
Debt Service funds	-	-	-	207,513	207,513
Permanent funds	-	-	-	45,706	45,706
Total Fund Balances	1,265,567	-	1,300,000	2,503,260	5,068,827
Total Liabilities and Fund Balances	\$ 1,967,936	\$ 52,447	\$ 1,300,000	\$ 2,962,501	\$ 6,282,884

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

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

Exhibit C-1

	Amount
Total Fund Balance - Governmental Funds	\$ 5,068,827
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,817,785	4,978,966
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(532,149)
3. Interest payable on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	(13,506)
	\$ 9,502,138
Total Net Assets - Governmental Activities	

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

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

Exhibit D

	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Title I</u>	<u>School</u>	<u>Other</u>	
	<u>Fund</u>	<u>A-1</u>	<u>Construction</u>	<u>Governmental</u>	
Revenues:					
Local sources	\$ 4,151,739	\$ 8,955	\$ -	\$ 443,355	\$ 4,604,049
State sources	8,976,422	-	-	432,528	9,408,950
Federal sources	35,581	749,305	-	3,551,172	4,336,058
Sixteenth section sources	-	-	-	383,814	383,814
Total Revenues	<u>13,163,742</u>	<u>758,260</u>	<u>-</u>	<u>4,810,869</u>	<u>18,732,871</u>
Expenditures:					
Instruction	8,008,023	479,233	-	1,914,548	10,401,804
Support services	3,924,908	118,193	-	1,914,381	5,957,482
Noninstructional services	11	8,842	-	1,099,873	1,108,726
Sixteenth section	-	-	-	38,097	38,097
Facilities acquisition and construction	-	-	-	14,700	14,700
Debt service:					
Principal	-	-	-	163,186	163,186
Interest	-	-	-	28,540	28,540
Total Expenditures	<u>11,932,942</u>	<u>606,268</u>	<u>-</u>	<u>5,173,325</u>	<u>17,712,535</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,230,800</u>	<u>151,992</u>	<u>-</u>	<u>(362,456)</u>	<u>1,020,336</u>
Other Financing Sources (Uses):					
Operating transfers in	1,019,033	-	500,000	833,624	2,352,657
Operating transfers out	(2,091,683)	(151,992)	-	(108,982)	(2,352,657)
Sale of Timber	-	-	-	28,028	28,028
Total Other Financing Sources (Uses)	<u>(1,072,650)</u>	<u>(151,992)</u>	<u>500,000</u>	<u>752,670</u>	<u>28,028</u>
Net Change in Fund Balances	158,150	-	500,000	390,214	1,048,364
Fund Balances:					
July 1, 2004	1,107,417	-	800,000	2,118,026	4,025,443
Decrease in inventory	-	-	-	(4,980)	(4,980)
June 30, 2005	<u>\$ 1,265,567</u>	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ 2,503,260</u>	<u>\$ 5,068,827</u>

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 1,048,364
Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$81,384 and the depreciation expense amounted to \$290,826.	(209,442)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.	163,186
3. Decrease in compensated absences is not reported in the governmental funds, but is included as a reduction of expenditures on the statement of activities.	2,330
4. Decrease in accrued interest payable is reported in Expenditures-Debt Service-Interest in the governmental funds, but reduces the Interest Payable on Long Term Liabilities on the Statement of Net Assets.	5,187
5. Recording losses of the disposal of fixed assets undepreciated costs is not reported in governmental funds, but is included as an other item on the statement of activities.	(148)
6. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are decreased in the statement of activity.	(4,980)
7. Prior Period Adjustment	(2,333)
Change in Net Assets of Governmental Activities	\$ 1,002,164

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

LAWRENCE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
6/30/2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 12,289
Total Assets	<u>\$ 12,289</u>
Liabilities	
Due to student clubs	\$ 12,289
Total Liabilities	<u>\$ 12,289</u>
Net Assets	
Reserved for endowments	\$ -
Held in trust	-
Total Net Assets	<u>\$ -</u>

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

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Title I A-1 Basic -- This is the fund that accounts for the income received and expended on Federal Title I Grants to Local Education Agencies.

School Construction Fund -- This fund accounts for school construction.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Continued).**

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Continued).**

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. The school district has no formal deposit or investment policies other than those which comply with Mississippi State Statutes as described in "Investments" below.

Cash and cash equivalents consist of highly liquid investments with original maturity of three months or less.

G. Investments.

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

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value. The school district has no marketable securities or managed funds.

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

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

LAWRENCE COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Continued).**

I. Capital Assets.

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

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

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

	Capitalization Policy	Estimated Useful Life
Land	\$ -	0
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.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 7 for details.

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Continued).**

K. Interfund Transactions and Balances.

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

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 5 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) **Summary of Significant Accounting Policies (Continued).**

L. Equity Classifications.

Fund Financial Statements (continued).

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(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, and Investments

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by the 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 \$5,496,451 and \$12,289, respectively. The carrying amount of deposits reported in the government-wide financial statements was Cash and Cash Equivalents -- \$5,496,451 and Restricted Assets -- \$45,706. The Restricted Assets represent the cash investment 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 \$6,355,608.

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, \$45,706 of the district's bank balance of \$6,355,608 was exposed to custodial risk as follows:

LAWRENCE COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

(3) Cash and Cash Equivalents, and Investments (continued)

Investments.

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

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Certificate of deposit	1 to 5 years	<u>\$45,706</u>	--

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

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

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

Concentration of credit risk. Disclosure of investment by amount and issuer for any issuer that represent five percent or more of total investment is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external invest pools, and other pooled investments. As of June 30, 2005, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investment</u>
State Bank	\$45,706	100

(4) Due from other Governments.

Due from other governments consisted of the following at June 30, 2005:

	<u>Amount</u>
Due from Local Sources	\$ 120,660
Due from State Sources	74,007
Due from Federal Sources	<u>302,057</u>
Total	<u>\$ 496,724</u>

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

(5) Inventories.

Inventories items consisted of the following at June 30, 2005:

	<u>Amount</u>
Food inventory	\$ 38,626
Prepaid supplies	2,334
Total	\$ 40,960

(6) 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	\$ 192,346	\$ -
Title I A-1 Basic Fund	-	7,911
School Construction fund	-	-
Non-major Funds	6,700	191,135
Total Funds	\$ 199,046	\$ 199,046

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

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 1,019,033	\$ 2,091,683
Title I A-1 Basic Fund	-	151,992
School Construction Fund	500,000	-
Non-major Funds	833,624	108,982
Total Funds	\$ 2,352,657	\$ 2,352,657

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

LAWRENCE COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

(7) **Capital Assets.**

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

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

	<u>Balance</u> <u>7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/2005</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 143,271	\$ -	\$ -	\$ -	\$ 143,271
<u>Depreciable capital assets:</u>					
Buildings	8,709,961	-	-	-	8,709,961
Improvements other than buildings	422,253	-	-	-	422,253
Mobile	2,020,698	6,037	-	-	2,026,735
Furniture and equipment	434,003	75,347	14,819	-	494,531
Total depreciable capital assets	<u>11,586,915</u>	<u>81,384</u>	<u>14,819</u>	<u>-</u>	<u>11,653,480</u>
<u>Less accumulated depreciation for:</u>					
Buildings	4,670,742	113,513	-	-	4,784,255
Improvements other than buildings	190,957	14,014	-	-	204,971
Mobile	1,347,171	119,074	-	-	1,466,245
Furniture and equipment	332,760	44,225	14,671	-	362,314
Total accumulated depreciation	<u>6,541,630</u>	<u>290,826</u>	<u>14,671</u>	<u>-</u>	<u>6,817,785</u>
Total depreciable capital assets, net	<u>5,045,285</u>	<u>(209,442)</u>	<u>148</u>	<u>-</u>	<u>4,835,695</u>
Governmental activities capital assets, net	<u>\$ 5,188,556</u>	<u>\$ (209,442)</u>	<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 4,978,966</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 136,551
Support Services	132,277
Non-instructional	21,998
Total depreciation expense	<u>\$ 290,826</u>

LAWRENCE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(8) Long Term Liabilities.

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

	Balance <u>7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2005</u>	Amounts due <u>within 1 year</u>
A. Limited obligation bonds payable	\$ 267,000	\$ -	\$ 62,000	\$ 205,000	\$ 65,000
B. Three mill-ten year notes payable	319,772	-	101,186	218,586	106,498
C. Compensated absences payable	<u>106,233</u>	<u>2,330</u>	<u>-</u>	<u>108,563</u>	<u>-</u>
Total	<u>\$ 693,005</u>	<u>\$ 2,330</u>	<u>\$ 163,186</u>	<u>\$ 532,149</u>	<u>\$ 171,498</u>

A. Limited Obligation Bonds Payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State Aid Capital Improvement, Series	4.98%	1/1/1998	7/5/2007	\$ 1,787,000	\$ 205,000

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2006	\$ 65,000	\$ 8,591	\$ 73,591
2007	68,000	5,279	73,279
2008	<u>72,000</u>	<u>1,793</u>	<u>73,793</u>
Total	<u>\$ 205,000</u>	<u>\$ 15,663</u>	<u>\$ 220,663</u>

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

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

(8) Long Term Liabilities (continued).

B. Three mill - ten year notes payable

School Notes are secured in accordance with Miss. Code Ann. 1972 Section 37-59-107, which directs the County Board of Supervisors to raise taxes (up to 3 mills) for the payment of unredeemed notes and interest.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three Mill - ten year notes	5.25%	10/1/1996	10/1/2006	\$ 900,000	\$ 218,587

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 106,498	\$ 11,476	\$ 117,974
2007	<u>112,089</u>	<u>5,885</u>	<u>117,974</u>
Total	<u>\$ 218,587</u>	<u>\$ 17,361</u>	<u>\$ 235,948</u>

This debt will be retired from the Three Mill Levy Debt Service fund.

C. Compensated absences payable

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

(9) Defined Benefit Pension Plan

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

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

(9) Defined Benefit Pension Plan (continued).

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$987,402, \$931,702, and \$866,546, respectively, which equaled the required contributions for each year.

(10) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 24,085
2007	24,085
2008	24,085
2009	24,085
2010	24,085
2011 - 2015	120,425
2016 - 2020	120,425
2021 - 2025	120,425
2026 - 2030	120,425
Total	<u>\$ 602,125</u>

(11) Prior Period Adjustment

Summary of fund equity adjustment is described below:

Exhibit A--Statement of Net Assets

Long-term liabilities – non-capital related was understated by \$2,333

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

(12) Risk Management

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

Participation in Public Entity Risk Pool.

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

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

(13) 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 for the required repairs.

LAWRENCE COUNTY SCHOOL DISTRICT

Required Supplementary Information

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,048,758	\$ 4,160,752	\$ 4,151,739	\$ 111,994	\$ (9,013)
State sources	8,869,607	8,976,422	8,976,422	106,815	-
Federal sources	90,000	35,581	35,581	(54,419)	-
Total Revenues	<u>13,008,365</u>	<u>13,172,755</u>	<u>13,163,742</u>	<u>164,390</u>	<u>(9,013)</u>
Expenditures:					
Instruction	8,221,747	8,005,082	8,008,023	(216,665)	2,941
Support services	4,009,951	3,923,408	3,924,908	(86,543)	1,500
Noninstructional services	19,937	11	11	(19,926)	-
Facilities acquisition and construction				-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	<u>12,251,635</u>	<u>11,928,501</u>	<u>11,932,942</u>	<u>(323,134)</u>	<u>4,441</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>756,730</u>	<u>1,244,254</u>	<u>1,230,800</u>	<u>487,524</u>	<u>(13,454)</u>
Other Financing Sources (Uses):					
Sale of transportation equipment	2,000	-	-	(2,000)	-
Sale of other property	2,000	-	-	(2,000)	-
Operating transfers in	988,779	1,019,033	1,019,033	30,254	-
Operating transfers out	(1,739,584)	(2,091,683)	(2,091,683)	(352,099)	-
Total Other Financing Sources (Uses)	<u>(746,805)</u>	<u>(1,072,650)</u>	<u>(1,072,650)</u>	<u>(325,845)</u>	<u>-</u>
Net Change in Fund Balances	9,925	171,604	158,150	161,679	(13,454)
Fund Balances:					
July 1, 2004	<u>1,357,500</u>	<u>1,093,962</u>	<u>1,107,417</u>	<u>(263,538)</u>	<u>13,455</u>
June 30, 2005	<u>\$ 1,367,425</u>	<u>\$ 1,265,566</u>	<u>\$ 1,265,567</u>	<u>\$ (101,859)</u>	<u>\$ 1</u>

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

LAWRENCE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Title I A-1 Basic Fund
For the Year Ended June 30, 2005

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local Sources	\$ -	\$ 8,955	\$ 8,955	\$ 8,955	\$ -
Federal Sources	867,202	749,305	749,305	(117,897)	-
Total Revenues	\$ 867,202	\$ 758,260	\$ 758,260	\$ (108,942)	\$ -
Expenditures:					
Instruction	500,549	479,233	479,233	21,316	-
Support Services	126,153	118,193	118,193	7,960	-
Noninstructional Services	17,396	8,842	8,842	8,554	-
Total Expenditures	644,098	606,268	606,268	37,830	-
Excess (Deficiency) of Revenues Over Expenditures	223,104	151,992	151,992	(71,112)	-
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(223,104)	(151,992)	(151,992)	71,112	-
Total other financing sources (uses)	(223,104)	(151,992)	(151,992)	71,112	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ -	\$ -	\$ -	\$ -	\$ -

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

LAWRENCE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedules

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

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

LAWRENCE COUNTY SCHOOL DISTRICT

Supplemental Information

Lawrence County 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 donation	10.550	\$ 80,600
Child nutrition cluster:		
National school lunch program	10.555	677,402
Fruit & Vegetable Grant	10.557	11,934
Summer food service program for children	10.559	9,330
Total child nutrition cluster		<u>698,666</u>
Total U. S. Department of Agriculture		<u>779,266</u>
 <u>U.S. Department of Commerce</u>		
Passed-through Mississippi Department of Education:		
Technology opportunities	11.552	<u>24,283</u>
 <u>U.S. Department of Labor</u>		
Passed-through Mississippi Development Authority:		
Workforce Investment Act--youth activities	17.259	<u>2,521</u>
 <u>U.S. Department of Education</u>		
Direct programs:		
EBM Physical Education Grant	84.215F	230,605
FIE IMP Education 03	84.215K	172,052
Teaching American History	84.215X	235,930
Twenty-first century community learning centers	84.287	408,876
School Library Grant	84.364A	<u>267,132</u>
Total		<u>1,314,595</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	749,305
Vocational education - basic grants to states	84.048	33,388
Safe and drug-free schools and communities - state grants	84.186	30,580
Even start - state educational agencies	84.213	207,894
Innovative education program strategies	84.298	314
Education technology state grants	84.318	231,733
Comprehensive school reform demonstration	84.332	187,251
Rural education	84.358	90,795
Improving teacher quality - state grants	84.367	<u>194,088</u>
Total		<u>1,725,348</u>

**Lawrence County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog or Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	416,421
Special education - preschool grants	84.173	<u>20,739</u>
Total		<u>437,160</u>
Total passed-through Mississippi Department of Education		<u>2,162,508</u>
Total U.S. Department of Education		<u>3,477,103</u>
 <u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Abstinence education	93.235	41,587
Administrative Claiming Medicaid	93.001	<u>11,298</u>
		<u>52,885</u>
 Total for All Federal Awards		 <u>\$ 4,336,058</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.

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,385,281	\$ 10,087,268	\$ 466,787	\$ 2,831,226
Other	<u>4,327,254</u>	<u>314,536</u>	<u>1,646,876</u>	<u>2,365,842</u>
Total	<u>\$ 17,712,535</u>	<u>\$ 10,401,804</u>	<u>\$ 2,113,663</u>	<u>\$ 5,197,068</u>
Total number of students	2,306			
Cost per student	\$ 7,681	\$ 4,511	\$ 917	\$ 2,254

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

LAWRENCE COUNTY SCHOOL DISTRICT

Reports on Compliance and Internal Control

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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M.C. Princy Harrison, CPA, CGFM
Julie M. Brown, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

October 6, 2005

Superintendent and School Board
Lawrence County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lawrence County School District as of and for the year ended June 30, 2005, which collectively comprise the Lawrence County School District's basic financial statements and have issued our report thereon dated October 6, 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 Lawrence County 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 noted no 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 Lawrence County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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

Superintendent and School Board
Lawrence County School District
Page Two

our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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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 6, 2005

Superintendent and School Board
Lawrence County School District

Compliance

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

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

Superintendent and School Board
Lawrence County School District
Page Two

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving 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 records and its distribution is not limited.

Holt & Associates, PLLC

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LAWRENCE COUNTY SCHOOL DISTRICT

Independent Auditor's Report on Compliance with State Laws and Regulations

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

October 6, 2005

Superintendent and School Board
Lawrence County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lawrence County School District for the year ended June 30, 2005, which collectively comprise the Lawrence County School District's financial statements and have issued our report thereon dated October 6, 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*.

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

In our opinion, the district complied, in all material respects, with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972). The district reported \$44,193 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

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LAWRENCE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

LAWRENCE COUNTY 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 financial statements: | <u>Unqualified</u> |
| 2. Material noncompliance relating to the 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 - grants to local educational agencies</u>
CDFA# 84.010 | |
| b. <u>Fund for the improvement of education</u>
CDFA# 84.215 | |
| c. <u>Twenty-first century community learning centers</u>
CDFA# 84.287 | |
| 8. programs: | <u>\$ 300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>Yes</u> |
| 10. 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? | <u>No</u> |

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.

LAWRENCE COUNTY SCHOOL DISTRICT

Auditee's Summary of Prior Audit Findings

Financial and Compliance Audit Division

As required by Section __.315(b) of OMB Circular A-133, the Lawrence County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2004.

Not Applicable