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LINCOLN COUNTY SCHOOL DISTRICT

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

**Charles L. Shivers, CPA
Ridgeland, MS**

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FINANCIAL AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lincoln County School District

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

I conducted my 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2006, on my consideration of the Lincoln County School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 7 through 12 and the Budgetary Comparison Schedule and related notes on pages 43 through 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

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

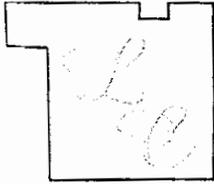


Ridgeland, MS
January 27, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Lincoln County School District

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Management Discussion and Analysis

The discussion and analysis of the Lincoln 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.

This discussion and analysis is an 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 and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$3,090,818, which represents a 26% increase from fiscal year 2004. This increase is due partially to conservative budgeting during the fiscal year. The district held back approximately 5% of projected revenue for the fiscal year in anticipation of budget cuts as recommended by the Mississippi Department of Education. However, the budget cuts never materialized. Insurance loss recoveries received during the fiscal year related to a fire at West Lincoln School also contributed to the increase in net assets. The increase is also due to the purchase of capital assets during the fiscal year and the reduction of long-term debt associated with the capital assets.
- General revenues accounted for \$16,152,658 in revenue, or 83% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,364,830, or 17% of total revenues. Special items in the amount of \$729,526 consist of insurance loss recoveries received during the fiscal year related to a fire at West Lincoln School.
- The District had \$17,156,196 in expenses; only \$3,364,830 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,152,658 and special items of \$729,526 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,771,657 in revenues and \$13,715,334 in expenditures. This resulted in an excess of revenues over expenditures in the amount of \$1,056,323, before other financing sources and uses and special items. This excess is due primarily to conservative budgeting during the fiscal year in anticipation of budget cuts that never materialized. After net other financing uses of \$1,808,051, including a transfer in the amount of \$1,500,000 to the FY05 Construction Fund, and special items consisting of insurance loss recoveries in the amount of \$75,000, the General Fund's fund balance decreased \$751,728 from the prior year.
- Capital assets, net of accumulated depreciation, increased by \$380,008.
- Long-term debt decreased by \$612,744.

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

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basic financial statements are comprised of 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 and other expenses on long-term liabilities.

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.

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.

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.

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.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund and is included in this report as required supplementary information.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included in 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 \$14,875,813 as of June 30, 2005.

The district’s net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$6,291,979 of the District’s net assets (42%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, mobile equipment and furniture and equipment), 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. \$2,774,878 of the District’s net assets (19%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements, unemployment benefits and ad valorem escrow. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$5,808,956 of the District’s net assets (39%) reflects its unrestricted net assets.

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

The following table presents a summary of the District’s net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 7,063,746	\$ 6,218,112
Other assets	1,816,241	1,341,580
Capital assets, net	<u>14,926,979</u>	<u>14,546,971</u>
Total assets	<u>23,806,966</u>	<u>22,106,663</u>
Current liabilities	146,506	924,277
Long-term debt outstanding	<u>8,784,647</u>	<u>9,397,391</u>
Total liabilities	<u>8,931,153</u>	<u>10,321,668</u>
Net assets:		
Invested in capital assets, net of related debt	6,291,979	5,336,971
Restricted	2,774,878	2,286,717
Unrestricted	<u>5,808,956</u>	<u>4,161,307</u>
Total net assets	<u>\$ 14,875,813</u>	<u>\$ 11,784,995</u>

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents.
- Other assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents in the 16th Section Principal Funds which is reported as restricted assets on the Statement of Net Assets.
- Capital assets increased from the previous fiscal year due primarily to the purchase of various capital assets during the fiscal year and the increase in construction in progress related to the construction and renovation of school facilities.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in accounts payable and accrued liabilities.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.

- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of capital assets during the fiscal year and the reduction of long-term debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for capital improvements resulting from the transfer of funds from the General Fund to the FY05 Construction Fund to be used for the renovation and construction of school facilities.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the decrease in the fund balance of the General Fund during the fiscal year resulting from the transfer of funds to the FY05 Construction Fund to be used for the renovation and construction of school facilities.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$19,517,488. The total cost of all programs and services was \$17,156,196. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues	\$ 3,364,830	\$ 3,279,792
General revenues	<u>16,152,658</u>	<u>15,282,337</u>
Total revenues	<u>19,517,488</u>	<u>18,562,129</u>
Expenses:		
Instruction	10,410,584	10,076,669
Support services	4,838,778	4,950,578
Non-instructional	1,302,848	1,224,054
Sixteenth section	204,994	144,843
Interest and other expenses on long-term liabilities	<u>398,992</u>	<u>428,599</u>
Total expenses	<u>17,156,196</u>	<u>16,824,743</u>
Special Items	<u>729,526</u>	<u>90,000</u>
Increase in net assets	<u>\$ 3,090,818</u>	<u>\$ 1,827,386</u>

The following are significant current year transactions that have had an impact on the Statement of Activities:

- General revenues increased from the previous fiscal year due primarily to an increase in taxes and unrestricted state grants and contributions.
- Special items increased from the previous fiscal year due primarily to an increase in insurance loss recoveries received during the fiscal year due to a fire at West Lincoln School.
- Instruction expenses increased from the previous fiscal year due primarily to the 8% increase in teacher pay.

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

	<u>2005</u>		<u>2004</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 10,410,584	\$ (8,903,828)	\$ 10,076,669	\$ (8,444,976)
Support services	4,838,778	(4,240,828)	4,950,578	(4,437,476)
Non-instructional	1,302,848	(48,938)	1,224,054	(89,057)
Sixteenth section	204,994	(198,780)	144,843	(144,843)
Interest on long-term liabilities	<u>398,992</u>	<u>(398,992)</u>	<u>428,599</u>	<u>(428,599)</u>
Total expenses	<u>\$ 17,156,196</u>	<u>\$(13,791,366)</u>	<u>\$ 16,824,743</u>	<u>\$(13,544,951)</u>

- The net cost of governmental activities for fiscal year 2005 in the amount of \$13,791,366 was financed by general revenue, which is made up of primarily property taxes of \$3,628,113 and state revenue of \$11,464,001.
- Investment earnings accounted for \$160,824 of funding.
- Sixteenth section revenue in the amount of \$728,961 was generated during the fiscal year from sixteenth section leases, the sale of timber and oil and gas royalties.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$8,833,067. The net change in fund balance for the fiscal year was an increase of \$2,100,514. This increase is due partially to conservative budgeting during the fiscal year. The district held back approximately 5% of projected revenue for the fiscal year in anticipation of budget cuts as recommended by the Mississippi Department of Education. However, the budget cuts never materialized. Revenue generated from sixteenth section sources and insurance loss recoveries received during the fiscal year related to a fire at West Lincoln School also contributed to the increase in fund balance.

\$6,358,966, or 72%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The portion of the fund balance reported in the Capital Projects Funds is a result of transfers from other funds and will be used for capital improvements. The portion of the fund balance reported in the Permanent Funds represents interest earned on sixteenth section sources that was not transferred to the Sixteenth Section Interest Funds. The remaining fund balance of \$2,474,101, or 28%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, ad valorem, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$751,728 due primarily to the transfer of funds to the FY05 Construction Fund to be used for the renovation and construction of school facilities. The net change in fund balance for the 16-5-9 Interest Fund for the fiscal year was an increase of \$131,051 due to revenue generated from sixteenth section leases, earnings on investments and the sale of timber and transfers from other Sixteenth Section Interest Funds. The net change in fund balance for the FY05 Construction Fund for the fiscal year was an increase of \$2,143,137 due to the transfer of funds from the General Fund and insurance loss recoveries related to a fire at West Lincoln School. The net change in fund balance for the 16-6-8 Principal Fund for the fiscal year was an increase of \$473,549 due to revenue generated from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$104,505.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in ad valorem receipts during the fiscal year.
- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfer of funds to the FY05 Construction Fund to be used for the renovation and construction of school facilities.
- Budgeted amounts for revenue from federal sources in the Title I-A Basic Fund were decreased to reflect the actual revenue received during the fiscal year. The total allocation was not spent during the fiscal year.

- Budgeted amounts for revenue from federal sources in the Title II-A Fund were decreased to reflect the actual revenue received during the fiscal year. The total allocation was not spent during the fiscal year.
- Budgeted amounts for revenue from federal sources in the IDEA Fund were decreased to reflect the actual revenue received during the fiscal year. The total allocation was not spent during the fiscal year.
- Budgeted amounts for revenue from sixteenth section sources in the 16-5-9 Interest Fund were increased to reflect the revenue generated from sixteenth section leases, earnings on investments and the sale of timber.
- Budgeted amounts for transfers into the 16-5-9 Interest Fund were decreased. The original budget included a transfer from the 16-5-9 Principal Fund in anticipation of a timber sale. However, the timber sale did not occur.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue 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, before depreciation, were \$19,951,625, including land, construction in progress, buildings, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$828,049 from the previous year. During the fiscal year, the district purchased land, four new school buses, surveillance equipment and several items of furniture and equipment. The district also began the construction of various school facilities and completed a lighting project at the Enterprise School football field. The district disposed of four school buses and two copiers during the fiscal year. Total depreciation expense for the year was \$553,002. Total accumulated depreciation as of June 30, 2005 was \$5,024,646, resulting in total net capital assets of \$14,926,979.

Debt Administration. At June 30, 2005, the District had \$8,784,647 in general and limited obligation bonds and other long-term debt outstanding, of which \$678,435 is due within one year. During the fiscal year, the district made principal payments in the amount of \$620,351 on existing long-term debt.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly from the previous fiscal year. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly from the previous fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Lincoln County School District, P. O. Box 826, Brookhaven, MS 39601.

BASIC FINANCIAL STATEMENTS

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Lincoln County School District
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 6,289,723
Investments (Note 2)	\$ 126,829
Due from other governments	\$ 623,840
Accrued interest receivable	\$ 198
Other receivables, net	\$ 362
Inventories	\$ 22,794
Restricted assets (Note 2)	\$ 1,816,241
Capital assets, net (Note 4)	\$ 14,926,979
Total Assets	<u>\$ 23,806,966</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 46,919
Interest payable on long-term liabilities	\$ 99,587
Long-term liabilities (Due within one year) (Note 5)	
Capital related liabilities	\$ 620,000
Non-capital related liabilities	\$ 58,435
Long-term liabilities (Due beyond one year) (Note 5)	
Capital related liabilities	\$ 8,015,000
Non-capital related liabilities	\$ 91,212
Total Liabilities	<u>\$ 8,931,153</u>
Net assets	
Investment in capital assets (net of related debt)	\$ 6,291,979
Restricted net assets	
Expendable	
School-based activities	\$ 423,158
Debt service	\$ 431,377
Forestry improvements	\$ 18,241
Unemployment benefits	\$ 59,438
Ad valorem escrow	\$ 29,711
Non-expendable	
Sixteenth section	\$ 1,812,953
Unrestricted	\$ 5,808,956
Total Net Assets	<u>\$ 14,875,813</u>

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

Lincoln County 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	Primary Government Governmental Activities
Primary Government				
Governmental Activities				
Instruction	\$ 10,410,584	\$ 438,178	\$ 1,068,578	\$ (8,903,828)
Support services	\$ 4,838,778		\$ 597,950	\$ (4,240,828)
Non-instructional	\$ 1,302,848	\$ 466,433	\$ 787,477	\$ (48,938)
Sixteenth section	\$ 204,994	\$ 6,214		\$ (198,780)
Interest and other expenses on long-term liabilities	\$ 398,992			\$ (398,992)
Total Governmental Activities	<u>\$ 17,156,196</u>	<u>\$ 910,825</u>	<u>\$ 2,454,005</u>	<u>\$ (13,791,366)</u>
General Revenues				
Taxes				
General purpose levies				\$ 3,004,996
Debt purpose levies				\$ 623,117
Unrestricted grants and contributions				
State				\$ 11,464,001
Federal				\$ 111,838
Unrestricted investment earnings				\$ 160,824
Sixteenth section sources				\$ 728,961
Other				\$ 58,921
Total General Revenues				<u>\$ 16,152,658</u>
Special items (Note 11)				\$ 729,526
Total General Revenues and Special Items				<u>\$ 16,882,184</u>
Changes in Net Assets				\$ 3,090,818
Net Assets - Beginning				\$ 11,784,995
Net Assets - Ending				<u>\$ 14,875,813</u>

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

Lincoln County School District
Balance Sheet - Governmental Funds
June 30, 2005

Exhibit C

Major Funds	Title I - A		Title II - A		IDEA Part B		16th Section		2005		16th Section		Other		Total	
	General Fund	Basic Fund	Fund	Fund	Fund	Fund	Interest Fund	Construction Fund	Principal Fund	Governmental Funds	Governmental Funds	Governmental Funds				
Assets																
Cash and cash equivalents (Note 2)	\$ 2,367,244						\$ 1,041,729	\$ 2,143,137	\$ 1,794,798					\$ 759,057	\$ 8,105,965	
Investments (Note 2)														\$ 126,829	\$ 126,829	
Due from other governments	\$ 311,064	\$ 31,645	\$ 11,909		\$ 13,095									\$ 256,127	\$ 623,840	
Other receivables, net														\$ 198	\$ 198	
Due from other funds (Note 3)	\$ 61,389													\$ 61,389	\$ 61,389	
Inventories														\$ 22,794	\$ 22,794	
Total Assets	\$ 2,739,697	\$ 31,645	\$ 11,909	\$ 13,095	\$ 1,041,729	\$ 2,143,137	\$ 1,794,798	\$ 1,165,005	\$ 8,941,015					\$ 1,165,005	\$ 8,941,015	
Liabilities and Fund Balances																
Liabilities																
Accounts payable & accrued liabilities	\$ 46,143													\$ 776	\$ 46,919	
Due to other funds (Note 3)														\$ 4,380	\$ 61,029	
Total Liabilities	\$ 46,143	\$ 31,645	\$ 11,909	\$ 13,095	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,156	\$ 107,948	\$ -				
Fund Balances																
Reserved for																
Debt service purposes														\$ 530,964	\$ 530,964	
Permanent fund purposes														\$ 21,405	\$ 1,812,953	
Unemployment benefits														\$ 59,438	\$ 59,438	
Forestry improvements														\$ 18,241	\$ 18,241	
Inventory														\$ 22,794	\$ 22,794	
Ad valorem	\$ 29,711													\$ -	\$ 29,711	
Unreserved																
Undesignated, reported in																
General fund	\$ 2,663,843													\$ -	\$ 2,663,843	
Special revenue funds							\$ 1,041,729							\$ 506,968	\$ 1,548,697	
Capital projects funds								\$ 2,143,137						\$ 39	\$ 2,143,137	
Permanent funds														\$ -	\$ -	
Total Fund Balances	\$ 2,693,554	\$ -	\$ -	\$ -	\$ 1,041,729	\$ 2,143,137	\$ 1,794,798	\$ 1,159,849	\$ 8,833,067					\$ 1,159,849	\$ 8,833,067	
Total Liabilities and Fund Balances	\$ 2,739,697	\$ 31,645	\$ 11,909	\$ 13,095	\$ 1,041,729	\$ 2,143,137	\$ 1,794,798	\$ 1,165,005	\$ 8,941,015					\$ 1,165,005	\$ 8,941,015	

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

Lincoln County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 8,833,067
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of \$5,024,646.	\$ 14,926,979
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.	\$ (8,784,646)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	\$ (99,587)
Total net assets - governmental activities	<u>\$ 14,875,813</u>

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

Lincoln County School District
 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 For the Year Ended June 30, 2005

Exhibit D

Major Funds	16th Section						Total Governmental Funds		
	General Fund	Title I - A Basic Fund	Title II - A Fund	IDEA Part B Fund	16-5-9 Interest Fund	2005 Construction Fund		16th Section 16-6-8 Principal Fund	Other Governmental Funds
Revenues									
Local sources	\$ 3,588,707	\$ 100						\$ 1,079,927	\$ 4,687,500
State sources	\$ 11,071,115			\$ 4,655				\$ 697,125	\$ 11,772,895
Federal sources	\$ 1,111,835	\$ 477,322	\$ 149,040	\$ 513,737				\$ 1,005,013	\$ 2,256,947
Sixteenth section sources					\$ 63,517			\$ 128,552	\$ 793,396
Total Revenues	\$ 14,771,657	\$ 477,422	\$ 149,040	\$ 518,392	\$ 63,517	\$ 18,566	\$ 601,327	\$ 2,910,617	\$ 19,510,538
Expenditures									
Instruction	\$ 9,106,826	\$ 389,061	\$ 149,391	\$ 165,761				\$ 725,082	\$ 10,536,121
Support services	\$ 4,238,614	\$ 88,297		\$ 352,631				\$ 204,995	\$ 4,884,537
Noninstructional services	\$ 105,359	\$ 64						\$ 1,092,706	\$ 1,198,129
Sixteenth section					\$ 6		\$ 95,877	\$ 109,111	\$ 204,994
Facilities acquisition and construction	\$ 264,535					\$ 29,955			\$ 294,490
Debt service									
Principal (Note 5)								\$ 620,351	\$ 620,351
Interest								\$ 405,992	\$ 405,992
Other								\$ 2,977	\$ 2,977
Total Expenditures	\$ 13,715,334	\$ 477,422	\$ 149,391	\$ 518,392	\$ 63,511	\$ 29,955	\$ 95,877	\$ 3,161,214	\$ 18,147,591
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,056,323	\$ -	\$ (351)	\$ -	\$ -	\$ (11,389)	\$ 505,450	\$ (250,597)	\$ 1,362,947
Other Financing Sources (Uses)									
Insurances loss recoveries	\$ 75,000					\$ 654,526			\$ 729,526
Sale of transportation equipment	\$ 966								\$ 966
Sale of other property	\$ 7,075								\$ 7,075
Operating transfers in (Note 3)	\$ 1,358,244		\$ 351		\$ 67,540	\$ 1,500,000		\$ 492,356	\$ 3,418,491
Operating transfers out (Note 3)	\$ (3,249,336)						\$ (31,901)	\$ (137,254)	\$ (3,418,491)
Total Other Financing Sources (Uses)	\$ (1,808,051)	\$ -	\$ 351	\$ -	\$ 67,540	\$ 2,154,526	\$ (31,901)	\$ 355,102	\$ 737,567
Net Change in Fund Balances	\$ (751,728)	\$ -	\$ -	\$ -	\$ 131,051	\$ 2,143,137	\$ 473,549	\$ 104,505	\$ 2,100,514
Fund Balances									
July 1, 2004	\$ 3,445,282	\$ -	\$ -	\$ -	\$ 910,678	\$ -	\$ 1,321,249	\$ 1,067,769	\$ 6,744,978
Decrease in reserve for inventory								\$ (12,425)	\$ (12,425)
June 30, 2005	\$ 2,693,554	\$ -	\$ -	\$ -	\$ 1,041,729	\$ 2,143,137	\$ 1,794,798	\$ 1,159,849	\$ 8,833,067

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

Lincoln 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 balance - governmental funds	\$ 2,100,514
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$943,390 and the depreciation expense amounted to \$553,002. (Note 4)	\$ 390,388
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	\$ 620,351
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	\$ (7,607)
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.	\$ (10,380)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	\$ 9,977
The governmental funds reported a decrease in reserve for inventory while the transaction is not reported in the statement of activities.	\$ (12,425)
Changes in net assets of governmental activities	<u>\$ 3,090,818</u>

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

Lincoln County School District
Statement of Net Assets - Fiduciary Funds
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 637,370
Total Assets	<u><u>\$ 637,370</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 573,287
Due to other funds (Note 3)	\$ 360
Due to student clubs	\$ 63,723
Total Liabilities	<u><u>\$ 637,370</u></u>

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

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Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying basic 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. Each member was elected by the citizens of the school district.

The Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 9).

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 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. It also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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 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 Basic Fund - This is special revenue fund consisting of federal funds that are used to provide services to educationally deprived children.

Title II - A Fund - This is a special revenue fund comprised of federal funds that are used to provide additional teachers in the lower grades and also to provide for staff development.

IDEA Part B Fund - This special revenue fund which is financed with federal funds is used to provide services for students with special education needs.

16th Section 16-5-9 Interest Fund - This fund is used to account for the expendable financial resources generated from the use of sixteenth section trust lands. Available funds may be transferred to the General Fund or Construction Funds and be used for appropriate purposes.

2005 Construction Fund - This fund is used to account for capital expenditures which are financed by transfers for the General Fund.

16th Section 16-6-8 Principal Fund - This fund is used to account for the sale of non-renewable resources (oil, gas, gravel, sand, etc.) on sixteenth section lands. The use of the fund is limited to providing advances to the General Fund or Capital Projects Fund to finance capital expenditures. State law requires any funds on hand to be invested. Interest income may be transferred to the General Fund.

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:

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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.

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.

G. Investments.

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

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

H. Inventories.

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).

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-Wide Financial Statements:

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further 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 debt service purposes – An account that represents a portion of the fund balance that is legally restricted for the retirement of school district debt.

Reserved for permanent fund purposes – An account that represents a portion of the fund balances that is legally restricted for investment purposes or borrowing by the school board for capital expenditures.

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

Reserved for forestry improvements – An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

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

Reserved for ad valorem escrow – An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

(2) Cash and Cash Equivalents and Investments

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district deposits in financial institutions are held in the name of the Mississippi 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 school district's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). That section permits the following types of investments: (a) certificates of deposit and interest bearing accounts; (b) direct US Treasury obligations; (c) US Government agencies, US Government instrumentalities or US Government sponsored enterprise obligations; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of those securities enumerated in (b) and (c) above; (e) direct obligations of the US in open-end or closed-end of any management type investment company. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,105,965 and \$637,370, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$6,289,723 and Restricted Assets - \$1,816,241. The Restricted Assets represents 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 \$9,688,716.

Custodial Credit Risk – Deposits. Custodial risk is the risk that in the event of a depository failure, the school district deposits may not be returned to it. The school district does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the school district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

Investments.

The school district had the following investments at year end:

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

<u>Investment</u>	<u>Maturity</u>	<u>Credit Rating</u>	<u>Fair Value</u>
Money Market Fund (US Treasury Notes/Bills)	Less than one Year	AAA	<u>\$ 126,829</u>

Investments are reported at fair value which is based on quoted market price.

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

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. **Due From/To Other Funds**

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 61,389	
Title I – A Basic		\$ 31,645
Title II - A		\$ 11,909
IDEA Part B		\$ 13,095
Non-major Funds		\$ 4,380
Fiduciary Funds		\$ 360
Total	<u>\$ 61,389</u>	<u>\$ 61,389</u>

Due to and due from transactions were for the purpose of closing federal programs at year end that had either negative cash or fund balance accounts which is common for the proper accounting of reimbursable programs.

B. **Transfers In/Out**

	<u>Transfer In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 1,358,244	\$ 3,249,336
Title I – A Basic	\$ 351	
16 th Section 16-5-9 Interest Fund	\$ 67,540	
2005 Construction Fund	\$ 1,500,000	
16 th Section 16-6-8 Principal Fund		\$ 31,901
Non-major Funds	\$ 492,356	\$ 137,254
Total	<u>\$ 3,418,491</u>	<u>\$ 3,418,491</u>

Transfers out of the General Fund were for the purpose of financing education programs not funded by state or federal sources (state required special education programs, vocational programs, alternative education programs, etc.) and to finance a building project accounted for in the 2005 Construction Fund. Transfers into the General Fund were primarily indirect costs transfers from federal programs. Transfers into the non-major funds (consisting mostly of federal programs) were for the purpose of closing federal programs at year end that had either negative cash or fund balance accounts which is common for the proper accounting of reimbursable programs.

(4) **Capital Assets.**

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

	<u>Balance</u> <u>7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6-30-2005</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 71,219	\$ 14,806		\$ 86,025
Construction in progress	\$ 0	\$ 120,437		\$ 120,437
Total non-depreciable capital assets	<u>\$ 71,219</u>	<u>\$ 135,243</u>	<u>\$ 0</u>	<u>\$ 206,462</u>
<u>Depreciable capital assets</u>				
Buildings	\$ 15,762,719			\$ 15,762,719
Improvements other than buildings	\$ 517,562	\$ 600,780		\$ 1,118,342
Mobile equipment	\$ 2,120,827	\$ 194,095	\$ (102,525)	\$ 2,212,397
Furniture and equipment	\$ 651,249	\$ 13,272	\$ (12,816)	\$ 651,705
Total depreciable capital assets	<u>\$ 19,052,357</u>	<u>\$ 808,147</u>	<u>\$ (115,341)</u>	<u>\$ 19,745,163</u>
<u>Less accumulated depreciation</u>				
Buildings	\$ 2,612,385	\$ 297,594		\$ 2,909,979
Improvements other than buildings	\$ 189,651	\$ 37,851		\$ 227,502
Mobile equipment	\$ 1,322,680	\$ 139,048	\$ (92,273)	\$ 1,369,455
Furniture and equipment	\$ 451,889	\$ 78,509	\$ (12,688)	\$ 517,710
Total accumulated depreciation	<u>\$ 4,576,605</u>	<u>\$ 553,002</u>	<u>\$ (104,961)</u>	<u>\$ 5,024,646</u>
Total depreciable capital assets, net	<u>\$ 14,475,752</u>	<u>\$ 255,145</u>	<u>\$ (10,380)</u>	<u>\$ 14,720,517</u>
Governmental activities capital assets, net	<u>\$ 14,546,971</u>	<u>\$ 390,388</u>	<u>\$ (10,380)</u>	<u>\$ 14,926,979</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 309,054
Support services	\$ 152,102
Non-instructional	\$ 91,846
Total depreciation expense	<u>\$ 553,002</u>

(5) Long-term liabilities.

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

	<u>Balance</u> <u>7-1-2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6-30-2005</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
A. General obligation bonds payable	\$ 4,310,000		\$ 305,000	\$ 4,005,000	\$ 330,000
B. Limited obligation bonds payable	\$ 4,400,000		\$ 210,000	\$ 4,190,000	\$ 225,000
C. Certificates of participation payable	\$ 500,000		\$ 60,000	\$ 440,000	\$ 65,000
D. Shortfall notes payable	\$ 93,651		\$ 45,351	\$ 48,300	\$ 48,300
E. Compensated absences payable	\$ 93,740	\$ 7,607		\$ 101,347	\$ 10,135
Total	<u>\$ 9,397,391</u>	<u>\$ 7,607</u>	<u>\$ 620,351</u>	<u>\$ 8,784,647</u>	<u>\$ 678,435</u>

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2002	Varies	12-1-02	6-1-20	\$ 3,800,000	\$ 3,595,000
General obligation bonds, Series 1997	4.5%-6%	4-15-97	4-15-07	\$ 1,685,000	\$ 410,000
Total				<u>\$ 5,485,000</u>	<u>\$ 4,005,000</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 330,000	\$ 166,456	\$ 496,456
2007	\$ 355,000	\$ 152,306	\$ 507,306
2008	\$ 160,000	\$ 137,006	\$ 297,006
2009	\$ 175,000	\$ 131,006	\$ 306,006
2010	\$ 190,000	\$ 124,442	\$ 314,442
2011 – 2015	\$ 1,190,000	\$ 502,824	\$ 1,692,824
2016 – 2020	\$ 1,605,000	\$ 225,112	\$ 1,830,112
Total	<u>\$ 4,005,000</u>	<u>\$ 1,439,152</u>	<u>\$ 5,444,152</u>

This debt will be retired from the 1997 Bond and Interest Fund and the 2002 Bond and Interest Fund (Debt Service Funds).

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 6% of property assessments as of October 1, 2004.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds	4.2%-6%	3-1-98	2-1-18	\$ 5,200,000	\$ 4,190,000
Total				<u>\$ 5,200,000</u>	<u>\$ 4,190,000</u>

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Year Ending June 30	Principal	Interest	Total
2006	\$ 225,000	\$ 183,874	\$ 408,874
2007	\$ 240,000	\$ 172,084	\$ 412,084
2008	\$ 240,000	\$ 161,944	\$ 401,944
2009	\$ 260,000	\$ 151,254	\$ 411,254
2010	\$ 260,000	\$ 140,074	\$ 400,074
2011 – 2015	\$ 1,490,000	\$ 511,464	\$ 2,001,464
2016 – 2018	\$ 1,475,000	\$ 129,177	\$ 1,604,177
Total	<u>\$ 4,190,000</u>	<u>\$ 1,449,871</u>	<u>\$ 5,639,871</u>

This debt will be retired from the MAEP Long Term Pledge Fund (Debt Service Funds).

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.

C. Certificates of participation payable.

As more fully explained in Note 9, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificate of Participation Series 1998	4.95%	6-1-98	6-1-12	\$ 2,000,000	\$ 440,000
Total				<u>\$ 2,000,000</u>	<u>\$ 440,000</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 65,000	\$ 21,780	\$ 86,780
2007	\$ 65,000	\$ 18,562	\$ 83,562
2008	\$ 70,000	\$ 8,176	\$ 78,176
2009	\$ 75,000	\$ 8,166	\$ 83,166
2010	\$ 75,000	\$ 4,454	\$ 79,454
2011 – 2012	\$ 90,000	\$ 494	\$ 90,494
Total	<u>\$ 440,000</u>	<u>\$ 61,632</u>	<u>\$ 501,632</u>

This debt will be retired from the EEF Building and Bus Fund (Special Revenue Funds).

D. Shortfall notes payable.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Year Ending June 30	Principal	Interest	Total
2006	\$ 48,300	\$ 2,531	\$ 50,831

This debt will be retired from the 2002 Shortfall Note Fund (Debt Service Funds).

E. 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' salary were paid.

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$941,742, \$904,050 and \$807,259, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of 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	\$ 66,653
2007	\$ 58,226
2008	\$ 51,880
2009	\$ 34,446
2010	\$ 15,879
2011 – 2015	\$ 28,049
2016 – 2020	\$ 7,933
2021 – 2025	\$ 3,733
2026 – 2030	\$ 3,733

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

Thereafter	\$ <u>6,083</u>
Total	\$ <u>276,615</u>

(8) 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 127 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.

(9) Trust Certificates.

A trust agreement dated June 1, 1998, was executed by and between the school district and the Trustmark National Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,000,000. Approximately \$1,992,663 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$7,337 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates. It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2005

(10) Vocational School Consortium.

The school district entered into a Vocational Education Agreement dated November 19, 1998, creating the Brookhaven-Lincoln County Regional Vocational Education Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972) and was approved by the Mississippi Department of Education. The center includes the Brookhaven School District and the Lincoln County School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement for the construction or operation of a regional vocational education center. The agreement designates the fiscal agent and provides the method of financing the operation for the center, the manner in which the center is to be controlled and staffed and sets detail procedures for student admission and the transportation services for those students.

The Brookhaven School District has been designated as the fiscal agent for the center and the operations of the center are included in its financial statements.

(11) Special Items.

During the 2005 FY, the school district received insurance proceeds of \$729,526 for the loss incurred when the Old Green Building at West Lincoln High School burned in September 2004.

(12) Subsequent Events

According to school district management, the district expects to receive additional insurance proceeds of approximately \$200,000. According to management, the total proceeds are sufficient to construct facilities suitable to satisfy the needs of the district.

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SUPPLEMENTARY INFORMATION

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Lincoln 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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education		
Non-cash assistance		
Food donation	10.550	\$ <u>69,168</u>
Child nutrition cluster		
School breakfast program	10.553	\$ 238,986
National school lunch program	10.555	\$ 560,600
Total child nutrition cluster		\$ <u>799,586</u>
Total U. S. Department of Agriculture		\$ <u>868,754</u>
Passed-through Mississippi Department of Education		
Title I - grants to local educational agencies	84.010	\$ 477,422
Vocational education - basic grants to states	84.048	\$ 26,184
Safe and drug-free schools and communities - state grants	84.186	\$ 18,255
Innovative education program strategies	84.298	\$ 13,035
Education technology - state grants	84.318	\$ 13,188
Improving teacher quality - state grants	84.367	\$ 149,391
Total		\$ <u>697,475</u>
Special education cluster		
Special education - grants to states	84.027	\$ 518,392
Special education - preschool grants	84.173	\$ <u>23,674</u>
Total special education cluster		\$ <u>542,066</u>
Total passed-through Mississippi Department of Education		\$ <u>1,239,541</u>
Total U.S. Department of Education		\$ <u>1,239,541</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services		
Temporary assistance for needy families	93.558	\$ <u>21,293</u>
Total U.S. Department of Health and Human Services		\$ <u>21,293</u>
Total for All Federal Awards		\$ <u>2,129,588</u>

NOTES TO SCHEDULE

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

Lincoln 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	\$ 12,115,684	\$ 8,834,749	\$ 1,233,617	\$ 2,047,318
Other	\$ 6,031,907	\$ 1,701,372	\$ 173,943	\$ 4,156,592
Total	\$ <u>18,147,591</u>	\$ <u>10,536,121</u>	\$ <u>1,407,560</u>	\$ <u>6,203,910</u>
Total number of students	<u>2,925</u>			
Cost per student	\$ <u>6,204</u>	\$ <u>3,602</u>	\$ <u>481</u>	\$ <u>2,121</u>

Notes to the schedule.

Instruction - includes the activities dealing directly with the interaction between teachers and students (all 1000 function codes).

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

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

Total number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

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Lincoln County School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 3,338,527	\$ 3,588,707	\$ 3,588,707	\$ (250,180)	\$ -
State sources	\$ 11,031,816	\$ 11,071,115	\$ 11,071,115	\$ (39,299)	\$ -
Federal sources	\$ 89,750	\$ 111,835	\$ 111,835	\$ (22,085)	\$ -
Total Revenues	\$ 14,460,093	\$ 14,771,657	\$ 14,771,657	\$ (311,564)	\$ -
Expenditures					
Instruction	\$ 9,155,481	\$ 9,657,527	\$ 9,106,826	\$ (502,046)	\$ 550,701
Support services	\$ 4,812,897	\$ 4,816,405	\$ 4,238,614	\$ (3,508)	\$ 577,791
Noninstructional services	\$ 92,782	\$ 114,274	\$ 105,359	\$ (21,492)	\$ 8,915
Facilities acquisition and construction	\$ 402,815	\$ 329,087	\$ 264,535	\$ 73,728	\$ 64,552
Total Expenditures	\$ 14,463,975	\$ 14,917,293	\$ 13,715,334	\$ (453,318)	\$ 1,201,959
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,882)	\$ (145,636)	\$ 1,056,323	\$ 141,754	\$ (1,201,959)
Other Financing Sources (Uses)					
Insurance loss recoveries	\$ -	\$ 75,000	\$ 75,000	\$ (75,000)	\$ -
Sale of transportation equipment	\$ -	\$ 966	\$ 966	\$ (966)	\$ -
Sale of other property	\$ -	\$ 7,075	\$ 7,075	\$ (7,075)	\$ -
Operating transfers in	\$ 1,262,666	\$ 1,358,244	\$ 1,358,244	\$ (95,578)	\$ -
Operating transfers out	\$ (1,929,748)	\$ (3,249,336)	\$ (3,249,336)	\$ 1,319,588	\$ -
Total Other Financing Sources (Uses)	\$ (667,082)	\$ (1,808,051)	\$ (1,808,051)	\$ 1,140,969	\$ -
Net Change in Fund Balances	\$ (670,964)	\$ (1,953,687)	\$ (751,728)	\$ 1,282,723	\$ (1,201,959)
Fund Balances					
July 1, 2004	\$ 2,320,486	\$ 3,445,282	\$ 3,445,282	\$ (1,124,796)	\$ -
June 30, 2005	\$ 1,649,522	\$ 1,491,595	\$ 2,693,554	\$ 157,927	\$ (1,201,959)

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I - A Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ -	\$ 100	\$ 100	\$ (100)	\$ -
Federal sources	\$ 610,632	\$ 477,322	\$ 477,322	\$ 133,310	\$ -
Total Revenues	<u>\$ 610,632</u>	<u>\$ 477,422</u>	<u>\$ 477,422</u>	<u>\$ 133,210</u>	<u>\$ -</u>
Expenditures					
Instruction	\$ 472,788	\$ 534,401	\$ 389,061	\$ (61,613)	\$ 145,340
Support services	\$ 132,693	\$ 128,238	\$ 88,297	\$ 4,455	\$ 39,941
Noninstructional services	\$ 5,151	\$ 5,613	\$ 64	\$ (462)	\$ 5,549
Total Expenditures	<u>\$ 610,632</u>	<u>\$ 668,252</u>	<u>\$ 477,422</u>	<u>\$ (57,620)</u>	<u>\$ 190,830</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (190,830)</u>	<u>\$ -</u>	<u>\$ 190,830</u>	<u>\$ (190,830)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (190,830)</u>	<u>\$ -</u>	<u>\$ 190,830</u>	<u>\$ (190,830)</u>
Fund Balances					
July 1, 2004	\$ -	\$ -	\$ -	\$ -	\$ -
June 30, 2005	<u>\$ -</u>	<u>\$ (190,830)</u>	<u>\$ -</u>	<u>\$ 190,830</u>	<u>\$ (190,830)</u>

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title II - A Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	\$ 166,611	\$ 149,040	\$ 149,040	\$ 17,571	\$ -
Total Revenues	<u>\$ 166,611</u>	<u>\$ 149,040</u>	<u>\$ 149,040</u>	<u>\$ 17,571</u>	<u>\$ -</u>
Expenditures					
Instruction	\$ 201,611	\$ 167,021	\$ 149,391	\$ 34,590	\$ 17,630
Total Expenditures	<u>\$ 201,611</u>	<u>\$ 167,021</u>	<u>\$ 149,391</u>	<u>\$ 34,590</u>	<u>\$ 17,630</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (35,000)</u>	<u>\$ (17,981)</u>	<u>\$ (351)</u>	<u>\$ (17,019)</u>	<u>\$ (17,630)</u>
Other Financing Sources (Uses)					
Operating transfers in	\$ 35,000	\$ 351	\$ 351	\$ 34,649	\$ -
Total Other Financing Sources (Uses)	<u>\$ 35,000</u>	<u>\$ 351</u>	<u>\$ 351</u>	<u>\$ 34,649</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ (17,630)</u>	<u>\$ -</u>	<u>\$ 17,630</u>	<u>\$ (17,630)</u>
Fund Balances					
July 1, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2005	<u>\$ -</u>	<u>\$ (17,630)</u>	<u>\$ -</u>	<u>\$ 17,630</u>	<u>\$ (17,630)</u>

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - IDEA Part B Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
State sources	\$ -	\$ 4,655	\$ 4,655	\$ (4,655)	\$ -
Federal sources	\$ 853,378	\$ 513,737	\$ 513,737	\$ 339,641	\$ -
Total Revenues	\$ 853,378	\$ 518,392	\$ 518,392	\$ 334,986	\$ -
Expenditures					
Instruction	\$ 239,900	\$ 227,852	\$ 165,761	\$ 12,048	\$ 62,091
Support services	\$ 613,478	\$ 693,141	\$ 352,631	\$ (79,663)	\$ 340,510
Total Expenditures	\$ 853,378	\$ 920,993	\$ 518,392	\$ (67,615)	\$ 402,601
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (402,601)	\$ -	\$ 402,601	\$ (402,601)
Net Change in Fund Balances	\$ -	\$ (402,601)	\$ -	\$ 402,601	\$ (402,601)
Fund Balances					
July 1, 2004	\$ -	\$ -	\$ -	\$ -	\$ -
June 30, 2005	\$ -	\$ (402,601)	\$ -	\$ 402,601	\$ (402,601)

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - 16th Section 16-5-9 Interest Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Sixteenth section sources	\$ 3,525	\$ 63,517	\$ 63,517	\$ (59,992)	\$ -
Total Revenues	\$ 3,525	\$ 63,517	\$ 63,517	\$ (59,992)	\$ -
Expenditures					
Sixteenth section	\$ 3,525	\$ 3,525	\$ 6	\$ -	\$ 3,519
Total Expenditures	\$ 3,525	\$ 3,525	\$ 6	\$ -	\$ 3,519
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ 59,992	\$ 63,511	\$ (59,992)	\$ (3,519)
Other Financing Sources (Uses)					
Operating transfers in	\$ 232,055	\$ 67,540	\$ -	\$ 164,515	\$ 67,540
Operating transfers out	\$ -	\$ -	\$ (67,540)	\$ -	\$ 67,540
Total Other Financing Sources (Uses)	\$ 232,055	\$ 67,540	\$ (67,540)	\$ 164,515	\$ 135,080
Net Change in Fund Balances	\$ 232,055	\$ 127,532	\$ 131,051	\$ 104,523	\$ 131,561
Fund Balances					
July 1, 2004	\$ 433,415	\$ 910,678	\$ 910,678	\$ (477,263)	\$ -
June 30, 2005	\$ 665,470	\$ 1,038,210	\$ 1,041,729	\$ (372,740)	\$ 131,561

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

Lincoln County School District
Notes to the Required Supplemental Information
For the Year Ended June 30, 2005

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before a date established by the Mississippi Board of Education (generally on or about September 1 of the following fiscal year). A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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Charles L. Shivers, CPA

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Member

AICPA
MSCPA

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

Superintendent and School Board
Lincoln County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2005, which collectively comprise the district's basic financial statements and have issued my report thereon dated January 27, 2006. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses. However, certain insignificant internal control matters have been communicated to management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the district's 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.



Ridgeland, MS
January 27, 2006

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Charles L. Shivers, CPA

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

Superintendent and School Board
Lincoln County School District

Compliance

I have audited the compliance of the Lincoln 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 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. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, Lincoln 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 Lincoln County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the district's 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.

A handwritten signature in black ink, appearing to read "Chad S. Smith". The signature is fluid and cursive, with the first name "Chad" being the most prominent.

Ridgeland, MS
January 27, 2006

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Lincoln County School District

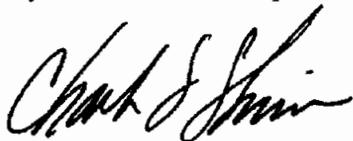
I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2005, which collectively comprise Lincoln County School District's basic financial statements and have issued my report thereon dated January 27, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$21,774 of classroom supply funds carried over from previous years.

The results of procedures to test compliance with other state laws and regulations and my audit of the basic financial statements did not disclose any instances of noncompliance with 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 record and its distribution is not limited.



Ridgeland, MS
January 27, 2006

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Lincoln 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 basic financial statements: | Unqualified |
| 2. | Material noncompliance relating to the basic financial statements? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | None Reported |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) reported as required by section __.510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Title I grants to Local Educational Agencies | |
| | CFDA #: 84.010 | |
| | b. Special Education Cluster | |
| | CFDA #: 84.027 | |
| | CFDA#: 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit findings and questioned costs 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 my tests did not disclose any findings and questioned costs related to the financial statements.

Section 3: Federal Award Findings and Questioned Costs

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

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