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**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Audited Financial Statements**

**For the Year Ended June 30, 2006**

**LAUDERDALE COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2006**

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LAUDERDALE COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2006

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**LAUDERDALE COUNTY SCHOOL DISTRICT  
FINANCIAL AUDIT REPORT**



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

Superintendent and School Board  
 Lauderdale County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lauderdale County School District as of and for the year ended June 30, 2006, which collectively comprise the Lauderdale County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lauderdale County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lauderdale County School District, as of June 30, 2006 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2006, on our consideration of the Lauderdale County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

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

The Management's Discussion and Analysis on pages (3) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (42) through (43) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County School District's basic financial statements. The 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 the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
November 13, 2006

*Watkins, Ward and Stafford, PLLC*

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

**LAUDERDALE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**



**Superintendent  
David Little**

The discussion and analysis of Lauderdale County School District's financial performance provides an overall narrative review of the school district's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the school district's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the school district's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

#### **FINANCIAL HIGHLIGHTS**

- Total net assets increased \$2,876,095, which represents 10% increase from fiscal year ending June 30, 2005.
- General revenues account for \$39,035,346 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,591,473 or 18% of total revenues.
- The district had \$44,750,724 in expenses; only \$8,591,473 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$39,035,346 were adequate to provide for these programs.
- Among major funds, the General Fund had \$37,064,788 in revenues and \$34,757,714 in expenditures. The General Fund's fund balance increased \$1,573,391 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$2,893,592.
- Long-term debt increased by \$4,153,051. The increase was due to issuance of three mill notes payable in the amount of \$6,250,000.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

The government-wide financial statements can be found in this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the district's current financing decisions. Both the

governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are included in the financial statements of the audit report.

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

The basic governmental fund financial statements can be found in this report.

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

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

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

The district adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. These budgetary comparison statements are provided as required supplementary information in this report.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the district, assets exceeded liabilities by \$32,313,831 as of June 30, 2006.

By far the largest portion of the district's net assets (71%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets	\$ 18,742,742	14,254,947
Capital assets, net	29,350,872	26,457,280
<b>Total Assets</b>	<u>48,093,614</u>	<u>40,712,227</u>
Current liabilities	2,148,862	1,944,728
Long-term debt outstanding	13,630,921	9,329,763
<b>Total Liabilities</b>	<u>15,779,783</u>	<u>11,274,491</u>
Net Assets:		
Invested in capital assets, net of related debt	14,813,722	20,511,859
Restricted	11,529,745	4,515,097
Unrestricted	5,970,364	4,410,780
<b>Total Net Assets</b>	<u>\$ 32,313,831</u>	<u>29,437,736</u>

**Changes in net assets.** The district's total revenues for the fiscal year ended June 30, 2006, were \$47,626,819. This represents an increase of \$2,645,047, or 6%, from the prior year. The total cost of all programs and services was \$44,750,724. This represents an increase of \$3,355,487, or 7%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>06/30/06</u>	<u>06/30/05</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 1,342,719	1,385,649
Operating grants and contributions	7,248,754	6,506,277
General revenues:		
Property taxes	9,796,997	9,048,744
Grants and contributions not restricted	27,438,246	27,139,686
Other	1,800,103	901,416
<b>Total Revenues</b>	<u>47,626,819</u>	<u>44,981,772</u>
<b>Expenses:</b>		
Instruction	25,518,133	25,568,748
Support services	16,422,564	12,869,230
Non-instructional	2,306,138	2,400,464
Sixteenth section	140,688	134,260
Interest and other expenses on long-term liabilities	<u>363,201</u>	<u>422,535</u>
<b>Total Expenses</b>	<u>44,750,724</u>	<u>41,395,237</u>
<b>Increase in Net Assets</b>	<u>\$ 2,876,095</u>	<u>3,586,535</u>

**Governmental activities.** The following table presents the cost of five major district functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for years ending June 30, 2006 and June 30, 2005. 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.

	<b>Total Expenses</b>		<b>Total Net (Expenses) Revenue</b>	
	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Instruction	\$ 25,518,133	25,568,748	(21,134,493)	(22,148,718)
Support services	16,422,564	12,869,230	(14,744,652)	(11,028,929)
Non-instructional	2,306,138	2,400,464	209,339	212,839
Sixteenth section	140,688	134,260	( 126,244)	( 115,968)
Interest on long-term liabilities	363,201	422,535	( 363,201)	( 422,535)
<b>Total Expenses</b>	<b>\$ 44,750,724</b>	<b>41,395,237</b>	<b>(36,159,251)</b>	<b>(33,503,311)</b>

- Net cost of governmental activities (\$36,159,251) was financed by general revenue, which is made up of primarily property taxes (\$9,796,997), state revenue (\$27,324,328) and sixteenth section sources (\$179,200).
- Investment earnings accounted for \$594,329 of funding.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

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

The financial performance of the district as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported a combined fund balance of \$17,923,909, an increase of \$4,122,613 due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$7,833,909 or 49% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the district's discretion. The remaining fund balance of \$10,090,000 or 56% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the district. The increase in fund balance in the General Fund for the fiscal year was \$1,573,391. The fund balance of the Three Mill Building Fund showed an increase of \$4,668,311. The increase of General Fund was due to revenues exceeding expenditures. The increase in the Three Mill Building Fund was due to the issuance of three-mill note payable in the amount of \$6,250,000. The fund balance of Other Governmental Funds showed a decrease of \$1,207,861. The fund balance of the Building Project Fund decreased \$913,194 during the fiscal year. These decreases were due to expenditures exceeding revenues.

## **BUDGETARY HIGHLIGHTS**

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

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

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the district's total capital assets were \$39,682,375 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,275,703 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$10,331,503, and total depreciation expense for the year was \$1,169,453, resulting in total net assets of \$29,350,872.

Additional information of the district's capital assets can be found in Note 5 of this report.

**Debt Administration.** At June 30, 2006, the district had \$14,864,205 in general obligation bonds and other long-term debt outstanding, of which \$1,233,284 is due within one year. The district retired \$2,110,756 of long-term debt during the year ended June 30, 2006.

The school district issued a three-mill notes payable in the amount of \$6,250,000.

The district maintains an AA-bond rating.

Additional information of the district's long-term debt can be found in Note 6 of this report.

## **CURRENT ISSUES**

The Lauderdale County District is financially stable. The district is proud of its community support of the public schools.

The district has committed itself to financial excellence for many years. The millage increased from 43.70 mills for the year ending June 30, 2005, to 43.94 mills for the year ending June 30, 2006. In addition, the district's system of financial planning, budgeting and internal financial controls are well regarded. The district plans to continue its sound fiscal management to meet the challenges of the future.

The district has experienced steady growth over the past five years. Latest enrollment figures indicate that student enrollment in the district will remain relatively steady next year. The budget for the next fiscal year has taken this into account in both funding and staffing needs.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Lauderdale County School District, P.O. Box 5498, Meridian, Mississippi 39301.

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

**LAUDERDALE COUNTY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**For the Year Ended June 30, 2006**

		<b>Primary Government Governmental Activities</b>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$	15,943,834
Due from other governments		2,000,525
Lease receivable, net		20,282
Other receivable, net		40,149
Inventories and prepaid items		66,361
Restricted assets		671,591
Land		482,482
Construction in progress		2,043,047
Capital assets, net of accumulated depreciation:		
Buildings		21,369,207
Improvements other than buildings		2,389,318
Mobile equipment		2,900,635
Furniture and equipment		151,654
Leased property under capital leases		14,529
Total Assets		48,093,614
<b>Liabilities</b>		
Accounts payable and accrued liabilities		57,983
Construction contracts and retainage payable		573,527
Deferred revenue		69,892
Other payables		117,431
Interest payable on long-term liabilities		96,745
Long-term liabilities, due within one year (Note 6)		
Capital related liabilities		1,233,284
Long-term liabilities, due beyond one year (Note 6)		
Capital related liabilities		13,303,866
Non capital related liabilities		327,055
Total Liabilities	\$	15,779,783
<b>Net Assets</b>		
Investment in capital assets, net of related debt	\$	14,813,722
Restricted net assets:		
Expendable:		
School - based activities		1,298,531
Debt service		1,497,751
Capital improvements		8,209,600
Forestry improvements		180,543
Unemployment benefits		134,062
Non-expendable:		
Sixteenth section		209,258
Unrestricted		5,970,364
<b>Total Net Assets</b>	\$	<b>32,313,831</b>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Assets</u>
					<u>Primary Government Governmental Activities</u>
Primary Government:					
Governmental Activities:					
Instruction	\$ 25,518,133	491,142	3,892,498		(21,134,493)
Support services	16,422,564		1,677,912		(14,744,652)
Non-instructional	2,306,138	837,133	1,678,344		209,339
Sixteenth section	140,688	14,444			(126,244)
Interest and other expenses on long-term liabilities	359,315				(359,315)
Debt - other	3,886			0	(3,886)
<b>Total Governmental Activities</b>	<b>\$ 44,750,724</b>	<b>1,342,719</b>	<b>7,248,754</b>	<b>0</b>	<b>(36,159,251)</b>
General Revenues:					
Taxes:					
General purpose levies				\$ 8,615,392	
Debt purpose levies				1,181,605	
Unrestricted grants and contributions:					
State				27,324,328	
Federal				113,918	
Unrestricted investment earnings				594,329	
Sixteenth section sources				179,200	
Other				1,026,574	
Total General Revenues				<u>39,035,346</u>	
Total General Revenues, Special Items Extraordinary Items and Transfers					<u>39,035,346</u>
Change in Net Assets					<u>2,876,095</u>
Net Assets - Beginning					<u>29,437,736</u>
Net Assets - Ending					<u>\$ 32,313,831</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2006

	Major Funds				Total Governmental Funds
	General Fund	Three Mill Building Fund	Building Project Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents (Note 3)	\$ 4,793,671	5,018,810	3,484,280	2,828,103	16,124,864
Cash with fiscal agents (Note 3)	620,718			490,561	490,561
Due from other governments				1,379,807	2,000,525
Lease receivable, net				20,282	20,282
Due from other funds (Note 4)	1,150,853	28,387			1,179,240
Advances to other funds				28,228	28,228
Inventories and prepaid items				66,361	66,361
Other receivables, net	40,149				40,149
Total Assets	\$ 6,605,391	5,047,197	3,484,280	4,813,342	19,950,210
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 12,350	35,307		10,326	57,983
Construction contracts and retainage payable	229,948	343,579			573,527
Due to other funds (Note 4)	37,445			1,141,795	1,179,240
Deferred revenue				69,892	69,892
Other payables				117,431	117,431
Advances from other funds	28,228				28,228
Total Liabilities	\$ 307,971	378,886	-	1,339,444	2,026,301

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

LAUDERDALE COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds (Continued)  
 June 30, 2006

	Major Funds				Total Governmental Funds
	General Fund	Three Mill Building Fund	Building Project Fund	Other Governmental Funds	
Fund Balances:					
Reserved for:					
Inventory	\$			66,361	66,361
Ad valorem	57,253			28,228	57,253
Advances				134,062	28,228
Unemployment benefits				1,594,496	134,062
Debt Service funds					1,594,496
Unreserved:					
Designated for, reported in:					
Capital projects funds		4,668,311	3,484,280	57,009	8,209,600
Undesignated, reported in:					
General fund	6,240,167			1,412,712	6,240,167
Special Revenue funds				181,030	1,412,712
Permanent funds				3,473,898	181,030
Total Fund Balances	<u>6,297,420</u>	<u>4,668,311</u>	<u>3,484,280</u>	<u>3,473,898</u>	<u>17,923,909</u>
Total Liabilities and Fund Balance	\$ <u>6,605,391</u>	<u>5,047,197</u>	<u>3,484,280</u>	<u>4,813,342</u>	<u>19,950,210</u>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2006**

	<u>Amount</u>
<b>Total Fund Balance - Governmental Funds</b>	\$ 17,923,909
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$10,331,503	29,350,872
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 6)	(14,864,205)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds	<u>(96,745)</u>
<b>Total Net Assets - Governmental Activities</b>	\$ <u><u>32,313,831</u></u>

LAUDERDALE COUNTY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 For the Year Ended June 30, 2006

	Major Funds				Total Governmental Funds
	General Fund	Three Mill Building Fund	Building Project Fund	Other Governmental Funds	
<b>Revenues:</b>					
Local sources	\$ 9,495,033	51,519	108,359	2,119,392	11,774,303
State sources	27,326,077			1,352,560	28,678,637
Federal sources	243,678			5,764,686	6,008,364
Sixteenth section sources				233,544	233,544
Total Revenues	<u>37,064,788</u>	<u>51,519</u>	<u>108,359</u>	<u>9,470,182</u>	<u>46,694,848</u>
<b>Expenditures:</b>					
Instruction	21,586,278	7,178		5,398,658	26,992,114
Support services	12,200,844	1,524,873	2,021,553	1,369,449	17,116,719
Noninstructional services	25,931			2,257,652	2,283,583
Sixteenth section				140,688	140,688
Facilities acquisition and construction	635,013	101,157			736,170
Debt service:					
Principal	209,085			1,901,671	2,110,756
Interest	98,988			273,268	372,256
Other	1,575			2,311	3,886
Total Expenditures	<u>34,757,714</u>	<u>1,633,208</u>	<u>2,021,553</u>	<u>11,343,697</u>	<u>49,756,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,307,074</u>	<u>(1,581,689)</u>	<u>(1,913,194)</u>	<u>(1,873,515)</u>	<u>(3,061,324)</u>

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

LAUDERDALE COUNTY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds (Continued)  
 For the Year Ended June 30, 2006

	Major Funds					Total Governmental Funds
	General Fund	Three Mill Building Fund	Building Project Fund	Other Governmental Funds		
<b>Other Financing Sources (Uses):</b>						
Proceeds of loans	\$	6,250,000				6,250,000
Insurance loss recoveries	910,562			21,409		931,971
Operating transfers in	5,024,758		1,000,000	2,959,317		8,984,075
Operating transfers out	(6,669,003)			(2,315,072)		(8,984,075)
Total Other Financing Sources (Uses)	<u>(733,683)</u>	<u>6,250,000</u>	<u>1,000,000</u>	<u>665,654</u>		<u>7,181,971</u>
Net Change in Fund Balances	<u>1,573,391</u>	<u>4,668,311</u>	<u>(913,194)</u>	<u>(1,207,861)</u>		<u>4,120,647</u>
<b>Fund Balance</b>						
July 1, 2005	4,724,029		4,397,474	4,679,793		13,801,296
Increase in reserve for inventory				1,966		1,966
June 30, 2006	<u>6,297,420</u>	<u>4,668,311</u>	<u>3,484,280</u>	<u>3,473,898</u>		<u>17,923,909</u>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT  
Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2006**

	<u>Amount</u>
<b>Net Change in Fund Balances – Governmental Funds</b>	<b>\$ 4,120,647</b>
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$4,063,045 and the depreciation expense amounted to \$1,169,453. (Note 5)	2,893,592
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)	2,110,756
3. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the statement of net assets.	(6,250,000)
4. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the changes in net assets differs from the change in fund balances by a combination of the following items:	
Increase in accrued compensated absences	( 13,807)
Decrease in accrued interest on bonds	12,941
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	<u>1,966</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>2,876,095</u></b>

**LAUDERDALE COUNTY SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**June 30, 2006**

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,899	2,467,469
Total Assets	<u>\$ 1,899</u>	<u>2,467,469</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	2,172,765
Due to student clubs		250,469
Other payables	-	44,235
Total Liabilities	<u>\$ -</u>	<u>2,467,469</u>
<b>Net Assets</b>		
Reserved for endowments	\$ 1,899	
Total Net Assets	<u>\$ 1,899</u>	

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

Exhibit F

**LAUDERDALE COUNTY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2006**

	<u>Private-Purpose Trust Funds</u>
<b>Additions</b>	
Interest on investments	\$ 63
Contributions and donations from private sources	<u>600</u>
Total Additions	<u>663</u>
<b>Deductions</b>	
Scholarships awarded	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Assets	<u>(337)</u>
<b>Net Assets</b>	
July 1, 2005	<u>2,236</u>
June 30, 2006	<u>\$ <u>1,899</u></u>

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

# LAUDERDALE COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

### (1) Summary of Significant Accounting Policies

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

#### A. Financial Reporting Entity.

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

#### B. Basis of Presentation.

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

##### *Government-wide Financial Statements:*

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

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

# LAUDERDALE COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006 (Continued)

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

### *Fund Financial Statements:*

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

### C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

Three Mill Building Fund – This capital projects fund accounts for financial resources relating to capital projects financed by three-mill notes series 2006.

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

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

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

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

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

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

**FIDUCIARY FUNDS**

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and 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.

## LAUDERDALE COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2006 (Continued)

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

Investments are valued at fair value.

#### H. Inventories and Prepaid Items.

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

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

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

#### I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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

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

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

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

Reserved for advances – An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

## LAUDERDALE COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2006 (Continued)

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

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

Unreserved – designated for, reported in capital projects funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

#### M. Property Taxes.

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

#### N. Mississippi Adequate Education Program Revenues.

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

#### O. Compensated Absences.

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

The liability for these compensated absences is recorded as long-term liabilities in

## LAUDERDALE COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2006 (Continued)

the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

#### (2) Changes in Accounting Standards

As required, the Lauderdale County School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

#### (3) Cash and Cash Equivalents and Cash with Fiscal Agents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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 \$16,124,864 and \$2,469,368, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents \$15,943,834 and restricted assets \$671,591. The restricted assets of \$671,591 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) \$181,030 and MAEP funds (other governmental funds) in the amount of \$490,561, respectively, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$22,775,242.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, \$0 of the district's bank balance of \$22,575,242 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$490,561.

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

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,150,853	37,445
Three Mill Building Fund	28,387	
Other governmental funds	-	1,141,795
Total Funds	<u>\$ 1,179,240</u>	<u>1,179,240</u>

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

The purpose of the interfund receivables and payables is to close-out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Transfers In/Out:	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 5,024,758	6,669,003
Building Project Fund	1,000,000	
Other governmental funds	<u>2,959,317</u>	<u>2,315,072</u>
Total Funds	<u>\$ 8,984,075</u>	<u>8,984,075</u>

The purpose of the interfund transfers is to transfer federal program indirect cost and expendable sixteenth section funds to the General Fund and to close-out federal program funds at year end. These transfers are consistent with the activities of the funds making the transfer.

C. Advances To/From Other Funds.	<b>Advances To</b>	<b>Advances From</b>
Governmental Funds:		
General Fund	\$ -	28,228
Other governmental funds	<u>28,228</u>	<u>-</u>
Total Funds	<u>\$ 28,228</u>	<u>28,228</u>

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

Sixteenth section principal loans payable.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,057	1,276	8,333
2008	7,057	994	8,051
2009	7,057	711	7,768
2010	<u>7,057</u>	<u>429</u>	<u>7,486</u>
Total	<u>\$ 28,228</u>	<u>3,410</u>	<u>31,638</u>

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

**(5) Capital Assets.**

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Completed Construction</u>	<u>Adjust- ments</u>	<u>Balance 6/30/2006</u>
<b>Non-depreciable Capital Assets:</b>						
Land	\$ 476,267	6,215				482,482
Construction in progress	261,920	2,880,760		(1,099,633)		2,043,047
<b>Total Non-depreciable Capital Assets</b>	<u>738,187</u>	<u>2,886,975</u>	<u>0</u>	<u>(1,099,633)</u>	<u>0</u>	<u>2,525,529</u>
<b>Depreciable Capital Assets:</b>						
Buildings	25,316,367			1,099,633		26,416,000
Improvements other than buildings	3,284,924					3,284,924
Mobile equipment	5,339,320	1,116,080				6,455,400
Furniture and equipment	895,497	59,990			19,960	975,447
Leased property under capital leases	45,035				(19,960)	25,075
<b>Total Depreciable Capital Assets</b>	<u>34,881,143</u>	<u>1,176,070</u>	<u>0</u>	<u>1,099,633</u>	<u>0</u>	<u>37,156,846</u>
<b>Less Accumulated Depreciation For:</b>						
Buildings	4,496,480	550,313				5,046,793
Improvements other than buildings	764,209	131,397				895,606
Mobile equipment	3,134,191	420,574				3,554,765
Furniture and equipment	752,265	60,870			10,658	823,793
Leased property under capital leases	14,905	6,299			(10,658)	10,546
<b>Total Accumulated Depreciation</b>	<u>9,162,050</u>	<u>1,169,453</u>	<u>0</u>			<u>10,331,503</u>
<b>Total Depreciable Capital Assets, Net</b>	<u>25,719,093</u>	<u>6,617</u>		<u>1,099,633</u>		<u>26,825,343</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 26,457,280</u>	<u>2,893,592</u>	<u>0</u>			<u>29,350,872</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 684,635
Support services	465,415
Non-instructions	19,403
<b>Total Depreciation Expense</b>	<u>\$ 1,169,453</u>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

Commitments under construction contracts at June 30, 2006 are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Energy project	\$ 850,699	
Football field lighting	169,492	
Clarkdale Attendance Center classroom addition	980,594	0
	<u>\$ 2,000,785</u>	<u>0</u>

**(6) Long-term Liabilities.**

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>	<u>Amounts Due Within One Year</u>
A. General obligation bonds payable	\$ 3,385,000		625,000	2,760,000	651,000
B. Limited obligation bonds payable	1,350,000		315,000	1,035,000	330,000
C. Three mill notes payable	2,895,000	6,250,000	1,095,000	8,050,000	165,000
D. Obligations under capital leases	18,584		7,418	11,166	5,374
E. Obligations under energy efficiency lease	1,749,322		68,338	1,680,984	81,910
F. Qualified zone academy bonds payable	1,000,000			1,000,000	
G. Compensated absences payable	<u>313,248</u>	<u>13,807</u>		<u>327,055</u>	
Total	<u>\$ 10,711,154</u>	<u>6,263,807</u>	<u>2,110,756</u>	<u>14,864,205</u>	<u>1,233,284</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation refunding bonds, Series 1997	Varies	10/01/97	04/01/11	\$ 4,410,000	2,395,000
General obligation refunding bonds, Series 2003	Varies	04/15/03	04/01/08	992,000	365,000
Total				<u>\$ 5,402,000</u>	<u>2,760,000</u>

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 651,000	125,875	776,875
2008	604,000	100,248	704,248
2009	475,000	74,538	549,538
2010	500,000	51,500	551,500
2011	<u>530,000</u>	<u>26,500</u>	<u>556,500</u>
Total	\$ <u>2,760,000</u>	<u>378,661</u>	<u>3,138,661</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2005. This debt will be retired from the Bond Retirement Fund.

B. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital Improvement	Varies	6/1/98	6/1/08	\$ <u>3,730,000</u>	<u>1,035,000</u>
Total				\$ <u>3,730,000</u>	<u>1,035,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 330,000	36,975	366,975
2008	350,000	22,525	372,525
2009	<u>355,000</u>	<u>7,544</u>	<u>362,544</u>
Total	\$ <u>1,035,000</u>	<u>67,044</u>	<u>1,102,044</u>

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

C. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill – ten year notes payable	Varies	7/24/03	7/24/13	\$ 1,910,000	1,800,000
Three mill – notes payable	Varies	04/01/06	04/01/22	<u>6,250,000</u>	<u>6,250,000</u>
Total				<u>\$ 8,160,000</u>	<u>8,050,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 165,000	309,219	474,219
2008	290,000	301,780	591,780
2009	95,000	287,463	382,463
2010	300,000	283,650	583,650
2011	325,000	273,713	598,713
2012 – 2016	3,425,000	1,062,063	4,487,063
2017 – 2021	2,900,000	448,181	3,348,181
2022	<u>550,000</u>	<u>22,000</u>	<u>572,000</u>
Total	<u>\$ 8,050,000</u>	<u>2,988,069</u>	<u>11,038,069</u>

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

D. Obligations under capital leases.

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

1. The lessee will obtain title after the last lease payment or bargain purchases option has been made.
2. The lessee can purchase the property by paying the outstanding balance at any time during the lease.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2007	\$ 5,374	655	6,029
2008	<u>5,792</u>	<u>239</u>	<u>6,031</u>
Total	<u>\$ 11,166</u>	<u>894</u>	<u>12,060</u>

- E. Obligations under energy efficiency lease.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2007	\$ 81,910	83,390	165,300
2008	95,402	78,904	174,306
2009	105,231	73,813	179,044
2010	114,779	68,252	183,031
2011	125,051	62,202	187,253
2012 – 2016	807,984	199,860	1,007,844
2017 – 2018	<u>350,627</u>	<u>15,865</u>	<u>366,492</u>
Total	<u>\$ 1,680,984</u>	<u>582,286</u>	<u>2,263,270</u>

The debt will be retired from the district maintenance fund.

- F. Qualified zone academy bonds payable.

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

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

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

G. Compensated absences payable.

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

(7) **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 10.75% 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, 2006, 2005 and 2004 were \$2,898,985, \$2,626,206, and \$2,287,865, respectively, which equaled the required contributions for each year.

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

**(8) Sixteenth Section Lands**

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 209,065
2008	203,421
2009	204,410
2010	200,327
2011	174,724
2012 – 2016	891,628
2017 – 2021	971,477
2022 – 2026	1,089,602
2027 – 2031	<u>1,136,907</u>
Total	\$ <u>5,081,561</u>

**(9) Risk Management**

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2006 (Continued)**

**(10) Qualified Zone Academy Bonds**

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

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

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 48,000
2008	52,000
2009	62,000
2010	290,000
2011	<u>240,000</u>
Total	<u>\$ 692,000</u>

**(11) Other Commitments**

Commitments under construction contracts are described in Note 5

Commitments under re-roofing and renovation contracts amount to \$213,689.

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTAL INFORMATION**

**LAUDERDALE COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP) Basis</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
<b>Revenues:</b>					
Local sources	\$ 9,142,610	9,492,826	9,495,033	350,216	2,207
State sources	27,210,827	27,327,427	27,326,077	116,600	(1,350)
Federal sources	30,000	206,274	243,678	176,274	37,404
Total Revenues	<u>36,383,437</u>	<u>37,026,527</u>	<u>37,064,788</u>	<u>643,090</u>	<u>38,261</u>
<b>Expenditures:</b>					
Instruction	22,520,479	21,790,883	21,586,278	729,596	204,605
Support services	12,745,898	12,178,250	12,200,844	567,648	(22,594)
Noninstructional services	63,203	25,931	25,931	37,272	
Facilities acquisition and construction	449,900	456,536	635,013	(6,636)	(178,477)
Debt service:					
Principal	171,913	301,188	209,085	(129,275)	92,103
Interest			98,988		(98,988)
Other			1,575		(1,575)
Total Expenditures	<u>35,951,393</u>	<u>34,752,788</u>	<u>34,757,714</u>	<u>1,198,605</u>	<u>(4,926)</u>
Excess (Deficiency) of Revenues Revenues Over Expenditures	432,044	2,273,739	2,307,074	1,841,695	33,335
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	20,000	910,562	910,562	890,562	
Sale of transportation equipment	1,000			(1,000)	
Operating transfers in	4,506,353	5,034,658	5,024,758	528,305	(9,900)
Operating transfers out	<u>(5,831,398)</u>	<u>(5,678,903)</u>	<u>(6,669,003)</u>	<u>152,495</u>	<u>(990,100)</u>
Total Other Financing Sources Uses	<u>(1,304,045)</u>	<u>266,317</u>	<u>(733,683)</u>	<u>1,570,362</u>	<u>(1,000,000)</u>
Net Change in Fund Balances	<u>(872,001)</u>	<u>2,540,056</u>	<u>1,573,391</u>	<u>3,412,057</u>	<u>(966,665)</u>
<b>Fund Balances:</b>					
July 1, 2005	<u>3,422,828</u>	<u>4,791,789</u>	<u>4,724,029</u>	<u>1,368,961</u>	<u>(67,760)</u>
June 30, 2006	\$ <u><u>2,550,827</u></u>	<u><u>7,331,845</u></u>	<u><u>6,297,420</u></u>	<u><u>4,781,018</u></u>	<u><u>(1,034,425)</u></u>

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**Notes to the Required Supplementary Information  
For the Year Ended June 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

**LAUDERDALE COUNTY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>135,085</u>
Child nutrition cluster:		
School Breakfast program	10.553	403,864
National School Lunch program	10.555	<u>921,346</u>
Total Child Nutrition Cluster		<u>1,325,210</u>
Fruit and vegetable program	10.582	<u>29,642</u>
Total U.S. Department of Agriculture		<u>1,489,937</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	<u>113,918</u>
Total Federal Communications Commission		<u>113,918</u>
<b><u>U.S. Department of Defense</u></b>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	<u>60,823</u>
Total U.S. Department of Defense		<u>60,823</u>
<b><u>U.S. Department of Homeland Security</u></b>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>52,550</u>
Total U.S. Department of Homeland Security		<u>52,550</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,549,951
Vocational education - basic grants to states	84.048	227,589
State grants for innovative programs	84.298	3,040
Improving teacher quality - state grants	84.367	357,597
Safe and drug-free schools and communities - state grants	84.186	58,005
Safe and drug-free schools and communities - national programs	84.184	37,404
Education technology state grants	84.318	15,599
Even start - state educational agencies	84.213	82,689
Hurricane Education Recovery	84.938	552,039
Grants for state assessments and related activities	84.369	<u>39,806</u>
Total		<u>2,923,719</u>
Special education cluster:		
Special education - grants to states	84.027	1,355,069
Special education - preschool grants	84.173	<u>65,393</u>
Total Special Education Cluster		<u>1,420,462</u>
Total Passed-through Mississippi Department of Education		<u>4,344,181</u>
Total U.S. Department of Education		<u>4,344,181</u>
<b><u>Total for All Federal Awards</u></b>		<b>\$ <u>6,061,409</u></b>

**Notes to Schedule**

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**SUPPLEMENTAL INFORMATION**

LAUDERDALE COUNTY SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE  
 AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 35,022,027	27,543,860	793,107	2,252,798	4,432,262
Other	14,734,145	2,419,262	550,828	148,693	11,615,362
Total	\$ 49,756,172	29,963,122	1,343,935	2,401,491	16,047,624
Total number of students	6,063				
Cost per student	\$ 8,207	4,942	222	396	2,647

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

**Instruction and Other Student Instructions Expenditures** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (All the 1000, 2100, and 2200 functional codes)

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

**School Administration** - includes expenditures for the following function: Support Services - School Administration (2400s)

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

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**REPORTS ON INTERNAL CONTROLS AND COMPLIANCE**



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

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 Paul A. Ray, CPA  
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 William B. Staggars, CPA  
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 David M. Howell, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
 Gary C. Hamilton, CPA  
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Michael L. Pierce, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
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 Kimberly S. Caskey, CPA  
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 Thomas J. Browder, CPA  
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 John N. Russell, CPA  
 Kenny Dickerson, CPA

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

Superintendent and School Board  
 Lauderdale County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lauderdale County School District as of and for the year ended June 30, 2006, which collectively comprise Lauderdale County School District's basic financial statements, and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Findings 06-1.

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

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not also necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the finding referred to above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the school district in a separate letter dated November 13, 2006, which is included in this report.

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

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
November 13, 2006

*Watkins, Ward and Stafford, PLLC*



**WATKINS, WARD and STAFFORD**  
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 Certified Public Accountants

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

Superintendent and School Board  
 Lauderdale County School District

Compliance

We have audited the compliance of the Lauderdale County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Lauderdale County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
November 13, 2006

*Watkins, Ward and Stafford, PLLC*

**LAUDERDALE COUNTY SCHOOL DISTRICT**

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



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA  
 Harry W. Stevens, CPA  
 Paul A. Ray, CPA  
 S. Keith Winfield, CPA  
 William B. Staggars, CPA  
 Aubrey R. Holder, CPA  
 David M. Howell, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
 Gary C. Hamilton, CPA  
 R. Steve Sinclair, CPA

Michael L. Pierce, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
 Robin Y. McCormick, CPA/PFS  
 J. Randy Scrivner, CPA  
 Kimberly S. Caskey, CPA  
 Susan M. Lummus, CPA  
 Thomas J. Browder, CPA  
 Stephen D. Flake, CPA  
 John N. Russell, CPA  
 Kenny Dickerson, CPA

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

Superintendent and School Board  
 Lauderdale County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lauderdale County School District as of and for the year ended June 30, 2006, which collectively comprise Lauderdale County School District's basic financial statements, and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$28,133 of classroom supply funds carried over from previous years.

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

1. Finding

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

Recommendation

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

School District's Response

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

We concur with the recommendation. A tickler system is being set up showing when rents are due. Each month the leases will be looked over, and unpaid leases will be sent a reminder letter. After 30 days, a certified letter will be sent to the leaseholder wherein they will be advised the lease must be brought current within 60 days or it will be taken to the board for termination.

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

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

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
November 13, 2006

*Watkins, Ward and Stafford, PLLC*

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

LAUDERDALE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

Section 1: Summary of Auditors' Results:

Financial Statements

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

Federal Awards:

- |  |               |
|--|---------------|
| 4. Type of auditors' report issued on compliance for major federal programs:             | Unqualified   |
| 5. Internal control over major programs:   |               |
| a. Material weakness(es) identified?   | No            |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No            |
| 6. Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133?  | No            |
| 7. Federal programs identified as major programs:  |               |
| a. Title I Grants to Local Educational Agencies  | CFDA # 84.010 |
| b. Improving Teacher Quality State Grants  | CFDA # 84.367 |
| c. Hurricane Education Recovery  | CFDA #84.938  |
| 8. The dollar threshold used to distinguish between Type A and Type B programs:          | \$300,000     |
| 9. Auditee qualified as a low-risk auditee?  | Yes           |

LAUDERDALE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2006

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_.315(b) of OMB Circular A-133? No

**Section 2: Financial Statement Findings**

Reportable Conditions Not Considered to be Material Weaknesses

06-1. Finding

In performing tests of collections of sixteenth section revenue, it came to our attention that remittance of sixteenth section revenue collected by manager was not being timely remitted to the finance office for deposit and recording.

Recommendation

We recommend the sixteenth section manager remit sixteenth section monies when collected to the finance office for deposit and recording on a timely basis.

Response

We concur with the recommendation. Monies will be given to the finance office at the time of receiving funds. A copy of the receipt along with the payment is given to the finance office.

**LAUDERDALE COUNTY SCHOOL DISTRICT**

**AUDITEE'S CORRECTIVE ACTION PLAN**

**LAUDERDALE COUNTY SCHOOL DISTRICT**

Financial and Compliance Audit Division

As required by Section\_\_\_\_.315(c) of OMB Circular A-133, the Lauderdale County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

There are no applicable audit findings, and therefore, no corrective action needed.