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**LAUREL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008**

LAUREL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008

TABLE OF CONTENTS

| | <u>Page No.</u> |
|--|-----------------|
| Independent Auditor's Report on the Basic Financial Statements and Supplemental Information | 1 – 2 |
| Management's Discussion and Analysis | 4 - 13 |
| <i>Government-Wide Financial Statements:</i> | |
| Statement of Net Assets (Exhibit A) | 15 |
| Statement of Activities (Exhibit B) | 16 |
| <i>Governmental Fund Financial Statements:</i> | |
| <u>Governmental Funds:</u> | |
| Balance Sheet – Governmental Funds (Exhibit C) | 17 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit C-1) | 18 |
| Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Funds (Exhibit D) | 19 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities (Exhibit D-1) | 20 |
| <u>Fiduciary Funds:</u> | |
| Statement of Fiduciary Assets and Liabilities (Exhibit E) | 21 |
| Notes to the Financial Statements | 22 - 39 |
| <i>Required Supplementary Information (RSI) (Other than MD&A):</i> | |
| Budgetary Comparisons Schedule | 41-42 |

(Continued)

LAUREL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008

TABLE OF CONTENTS
- CONTINUED -

| | <u>Page No.</u> |
|---|-----------------|
| Notes to the Required Supplementary Information | 43 |
| Schedule of Expenditures of Federal Awards | 45 |
| Schedule of Instructional, Administrative, and Other Expenditures – Governmental Funds | 46 |
| <i>Other Supplemental Information</i> | |
| Statement of Revenues, Expenditures and Changes in Fund Balances- General Fund – Last Four Years | 47 |
| Statement of Revenues, Expenditures and Changes in Fund Balances- All Governmental Funds – Last Four Years | 48 |
| <i>Reports on Compliance and Internal Control:</i> | |
| Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with <u>Government Auditing Standards</u> | 50 - 51 |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 52 - 53 |
| Independent Auditor's Report on Compliance with State Laws and Regulations | 55 - 56 |
| <i>Findings:</i> | |
| Schedule of Findings and Questioned Costs | 58 – 59 |

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

Superintendent and School Board
Laurel School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Laurel School District as of and for the year ended June 30, 2008, which collectively comprise the Laurel School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Laurel School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Laurel School District, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2009, on our consideration of the Laurel School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Superintendent and School Board
Laurel School District
Page Two

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 41 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 Laurel School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures, and Changes in Fund Balances-General Fund-Last Four Years and the Statement of Revenues, Expenditures, and Changes in Fund balances-All Governmental Funds-Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Holt + Associates

January 19, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of Laurel School District's financial performance provides an overall narrative review of the District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the 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 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 decreased \$116,295 in 2008 and increased \$3,251,590 in 2007, (including the effects of prior period adjustments) which represents a decrease of .54% and an increase of 17.7% respectively.
- General revenues account for \$23,469,672 in 2008 and \$22,508,636 in 2007, or 74.4% and 77.6% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,072,028 in 2008 and \$6,479,763 in 2007 or 25.6 % and 22.4% of total revenues, respectively.
- The District had expenses of \$31,657,995 in 2008 and \$25,736,809 in 2007; only \$8,072,028 in 2008 and \$6,479,763 in 2007 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$23,469,672 and \$22,508,636, respectively, were adequate to provide for these programs.
- Among major funds, the General Fund had \$22,555,997 in revenues and \$24,296,441 in expenditures in 2008; in 2007 there were \$20,563,843 in revenues and \$21,210,466 in expenditures. The General Fund's fund balance decreased \$2,591,580 in 2008, and decreased \$298,478 in 2007.
- Capital assets, net of accumulated depreciation, increased by \$2,470,087 in 2008, primarily due to construction in progress, and increased by \$2,140,328 in 2007.
- Long-term debt increased by \$26,172,053 in 2008, and decreased \$490,349 in 2007, which was primarily due to the issuance of new general obligations bond for the improvement of the district's facilities.

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15 - 16 of this report.

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

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

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20 respectively.

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 on pages 17 - 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The District's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 21 .

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-39 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 41-42 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133, a schedule of instructional, administrative and other expenditures for governmental funds, a Statement of Revenues, Expenditures and Change in Fund Balance for the General Fund-Last Four Years, and Statement of Revenues, Expenditures, and Changes in Fund Balances – All Government Funds – Last Four Years can be found on pages 45-48 of this report.

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 \$21,519,185 as of June 30, 2008 and \$21,635,480 as of June 30, 2007.

By far the largest portion of the District's net assets at June 30, 2008 and 2007 (40.0% and 36.4%) 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.

LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2008 and 2007.

| | <u>2008</u> | <u>2007</u> | <u>Percentage Change</u> |
|--|-----------------------------|-----------------------------|------------------------------|
| Current assets | \$ 38,733,041 | \$ 14,368,129 | 170% |
| Capital assets, net | <u>11,192,734</u> | <u>8,722,647</u> | 28% |
| Total assets | <u>49,925,775</u> | <u>23,090,776</u> | 116% |
| | | | |
| Current liabilities | 1,942,578 | 667,337 | 191% |
| Long-term debt outstanding | <u>26,464,012</u> | <u>787,959</u> | 3259% |
| Total liabilities | <u>28,406,590</u> | <u>1,455,296</u> | 1852% |
| | | | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 9,405,780 | 7,875,647 | 19% |
| Restricted | 10,993,100 | 6,818,351 | 61% |
| Unrestricted | <u>1,120,305</u> | <u>6,941,482</u> | -84% |
| Total net assets | <u>\$ 21,519,185</u> | <u>\$ 21,635,480</u> | -1% |

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

Issuance of General Obligation Bonds

- The District issued \$26,500,000 in General Obligation bonds and retired \$290,000 in 3 Mill/10 Year notes.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 and 2007 were \$31,541,700 and \$28,988,399, respectively. The total cost of all programs and services was \$31,657,995 in 2008 and \$25,736,809 in 2007. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>2008</u> | <u>2007</u> | <u>Percentage Change</u> |
|---------------------------------------|----------------------|----------------------|------------------------------|
| Revenues: | | | |
| Program revenues | | | |
| Charges for services | \$ 1,243,704 | \$ 513,866 | 142.03% |
| Operating grants and contributions | 6,828,324 | 5,965,897 | 14.46% |
| General Revenues | | | |
| Taxes | 9,031,549 | 8,603,423 | 4.98% |
| Unrestricted grants and contributions | 12,625,764 | 11,955,908 | 5.60% |
| Unrestricted investment earnings | 1,042,913 | 674,246 | 54.68% |
| 16th Section sources | 727,540 | 588,738 | 23.58% |
| Other Revenues | <u>41,906</u> | <u>686,321</u> | -93.89% |
| Total Revenues | <u>31,541,700</u> | <u>28,988,399</u> | <u>8.81%</u> |
| Expenses: | | | |
| Instruction | 15,953,931 | 15,403,057 | 3.58% |
| Support Services | 13,938,122 | 9,327,577 | 49.43% |
| Non-instructional | 1,721,936 | 978,282 | 76.02% |
| Interest on long-term liabilities | <u>44,006</u> | <u>27,893</u> | <u>57.77%</u> |
| Total Expenses | <u>31,657,995</u> | <u>25,736,809</u> | <u>23.01%</u> |
| Increase in Net Assets | <u>(116,295)</u> | <u>3,251,590</u> | <u>-103.58%</u> |
| Net assets, July 1 | 21,635,480 | 18,389,701 | 17.65% |
| Prior period adjustment | <u>-</u> | <u>(5,811)</u> | <u>-100.00%</u> |
| Net assets, July 1 (as restated) | <u>21,635,480</u> | <u>18,383,890</u> | <u>17.69%</u> |
| Net assets, June 30 | <u>\$ 21,519,185</u> | <u>\$ 21,635,480</u> | <u>-0.54%</u> |

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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

| | <u>2008</u> | | <u>2007</u> | |
|-----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|
| | <u>Total Expenses</u> | <u>Net (Expense) Revenue</u> | <u>Total Expenses</u> | <u>Net (Expense) Revenue</u> |
| Instruction | \$ 15,953,931 | \$ (11,127,957) | \$ 15,403,057 | \$ (11,726,130) |
| Support Services | 13,938,122 | (12,558,747) | 9,327,577 | (7,684,263) |
| Non-instructional | 1,721,936 | 144,743 | 978,282 | 181,240 |
| Interest on long-term liabilities | <u>44,006</u> | <u>(44,006)</u> | <u>27,893</u> | <u>(27,893)</u> |
| | <u>\$ 31,657,995</u> | <u>\$ (23,585,967)</u> | <u>\$ 25,736,809</u> | <u>\$ (19,257,046)</u> |

- Net cost of governmental activities in 2008 was \$23,780,392 and in 2007 was \$19,257,046 financed by general revenue, which is made up of primarily property taxes in 2008 and 2007 of \$9,031,549 and \$8,603,423, respectively, and state revenue of \$12,588,420 in 2008 and \$11,630,767 in 2007, and federal revenue of \$37,344 in 2008 and \$325,141 in 2007, and Sixteenth section earnings of \$727,541 in 2008 and \$588,738 in 2007.
- Investment earnings accounted for funding of \$1,042,912 in 2008 and \$674,246 in 2007.

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 \$37,923,022 in 2008, an increase of \$23,882,344 and \$14,039,562 in 2007, an increase of \$617,072. Of the fund balance, \$3,635,932 or 9.6% in 2008 and \$9,126,783 or 65.0% in 2007, constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$34,287,090 or 90.4% in 2008 and \$4,912,779 or 35.0% in 2007, is reserved or designated to indicate that it is not available for spending because it has already been committed.

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for fiscal year 2008 was \$2,591,580. The fund balances in all other funds increased a total of \$26,473,924.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Some of the significant adjustments are described below.

- Revenue from local sources in the final General Fund budget was \$987,353 more than original budget estimates. E-rate revenues in the General Fund were \$154,701 less than budgeted. Overall, revenues in the General Fund budget have a positive variance of \$981,664, representing a four percent variance from the original General Fund budget.
- Instructional expenditures in the General Fund were 2.7% less in the final budget than the original budget while the district spent 50.45 more on Support Services than was originally budgeted, which is primarily due to facility upgrades at the various schools. Also, the district spent 86.6% less for Facilities and Acquisition than was originally budgeted.
- The 26.5 Mil Bond Construction Fund (Fund 3023) was not originally budgeted because actual allocations were not known at the time the original budget was adopted.
- The 16th Section Permanent/Principal Fund's final budget was more than the original budget by \$69,951, or 86.0%.
- Looking at the overall budget, the district exceeded revenue expectations by receiving \$1,280,657 (4.2% positive variance); however, final budgeted expenses exceeded originally budgeted amounts by \$4,246,862 (14.2% negative variance).

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets as of June 30, 2008 were \$17,781,276 and \$15,044,854 as of June 30, 2007, including school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$2,736,422 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$6,588,542 and total depreciation expense was \$411,807. Total accumulated depreciation as of June 30, 2007 was \$6,322,207. Total capital assets for 2008 and 2007, net were \$11,192,734 and \$8,722,647, respectively.

| | <u>Capital Assets, Net of Depreciation</u> | | <u>Percentage Change</u> |
|--------------------------|--|---------------------|------------------------------|
| | <u>2008</u> | <u>2007</u> | |
| Land | \$ 566,683 | \$ 566,683 | 0.00% |
| Construction in Progress | 2,580,850 | 600,826 | 329.55% |
| Buildings | 4,321,446 | 3,804,476 | 13.59% |
| Building Improvements | 2,593,893 | 2,700,396 | -3.94% |
| Other Improvements | 445,433 | 467,737 | -4.77% |
| Mobile Equipment | 478,920 | 545,061 | -12.13% |
| Furniture & Equipment | 205,509 | 37,468 | 448.49% |
| | <u>\$ 11,192,734</u> | <u>\$ 8,722,647</u> | <u>28.32%</u> |

Additional information of the District's capital assets can be found in Note 5 on page 33 - 34 of this report.

Debt Administration. At June 30, 2008 and 2007 the District had \$27,292,012 and \$1,119,959, respectively, in general obligation bonds, limited obligation bonds and other long-term debt outstanding, with \$828,000 in 2008 and \$332,000 in 2007 due within one year.

| | <u>Outstanding Debt</u> | | <u>Percentage Change</u> |
|----------------------------------|-------------------------|---------------------|------------------------------|
| | <u>2008</u> | <u>2007</u> | |
| General obligation bonds payable | \$ - | \$ 42,000 | -100.00% |
| Three mill notes payable | 515,000 | 805,000 | -36.02% |
| Limited obligation bonds payable | 26,500,000 | - | 100.00% |
| Compensated Absences payable | \$ 277,012 | \$ 272,959 | 1.48% |
| Total | <u>\$ 27,292,012</u> | <u>\$ 1,119,959</u> | <u>2336.88%</u> |

Additional information of the District's long-term debt can be found in Note 7 on page 35 - 37 of this report.

**LAUREL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

**LAUREL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008**

EXHIBIT A

| | | <u>Governmental Activities</u> |
|--|-----------|------------------------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ | 11,469,898 |
| Due from other governments | | 1,525,402 |
| Other receivables | | 9,105 |
| Due from fiduciary funds | | 10,119 |
| Inventories | | 39,372 |
| Restricted assets | | 25,679,145 |
| Capital assets, non-depreciable | | |
| Land | | 566,683 |
| Construction in progress | | 2,580,850 |
| Capital assets, net of accumulated depreciation | | |
| Buildings | | 4,321,446 |
| Building improvements | | 2,593,893 |
| Improvements other than buildings | | 445,433 |
| Mobile equipment | | 478,920 |
| Furniture and equipment | | <u>205,509</u> |
| TOTAL ASSETS | \$ | <u>49,925,775</u> |
| LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ | 802,278 |
| Unearned revenue | | 7,741 |
| Interest payable on long term liabilities | | 304,559 |
| Long-term liabilities (Due within one year) | | |
| Capital related liabilities | | 828,000 |
| Long-term liabilities (Due beyond one year) | | |
| Capital related liabilities | | 26,187,000 |
| Non-capital related liabilities | | <u>277,012</u> |
| TOTAL LIABILITIES | \$ | <u>28,406,590</u> |
| NET ASSETS: | | |
| Investment in capital assets (net of related debt) | \$ | 9,405,780 |
| Restricted net assets: | | |
| Expendable: | | |
| School-Based Activities | | 5,947,267 |
| Debt Service | | 451,060 |
| Unemployment Benefits | | 84,882 |
| Non-expendable: | | |
| Sixteenth section | | 4,509,891 |
| Unrestricted: | | <u>1,120,305</u> |
| TOTAL NET ASSETS | \$ | <u>21,519,185</u> |

LAUREL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT B

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction | \$ 15,953,931 | \$ 1,003,745 | \$ 3,822,229 | \$ - | (11,127,957) |
| Support Services | 13,938,122 | - | 1,379,375 | - | (12,558,747) |
| Non-instructional | 1,721,936 | 239,959 | 1,626,720 | - | 144,743 |
| Interest and other expenses on long-term liabilities | 44,006 | - | - | - | (44,006) |
| Total governmental activities | 31,657,995 | 1,243,704 | 6,828,324 | - | (23,585,967) |

Taxes:

| | |
|------------------------|-----------|
| General purpose levies | 8,572,619 |
| Debt purpose levies | 458,930 |

Unrestricted grants & contributions:

| | |
|----------------------------------|------------|
| State | 12,588,420 |
| Federal | 37,344 |
| Unrestricted investment earnings | 1,042,912 |
| Sixteenth section earnings | 727,541 |
| Other | 41,906 |

| | |
|------------------------|------------|
| Total General Revenues | 23,469,672 |
|------------------------|------------|

| | |
|----------------------|-----------|
| Change in Net Assets | (116,295) |
|----------------------|-----------|

| | |
|------------------------|------------|
| Net Assets - Beginning | 21,635,480 |
|------------------------|------------|

| | |
|---------------------|------------|
| Net Assets - Ending | 21,519,185 |
|---------------------|------------|

LAUREL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

EXHIBIT C

| | MAJOR FUNDS | | | | Total Governmental Funds |
|--|----------------------------|---------------------------------------|-----------------------------------|--------------------------------|--------------------------------|
| | General Fund | 26.5 Mil Bond Construction Fund | 16th Section Principal Fund | Other Governmental Funds | |
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 8,942,124 | \$ 25,436,783 | \$ 242,362 | \$ 2,527,774 | \$ 37,149,043 |
| Accounts receivables and other receivables | - | - | 9,105 | - | 9,105 |
| Due from other governments | 453,020 | - | 697,963 | 374,419 | 1,525,402 |
| Due from other funds | 316,876 | - | - | 201,706 | 518,582 |
| Advances to other funds | - | - | 3,560,461 | - | 3,560,461 |
| Inventories | - | - | - | 39,372 | 39,372 |
| TOTAL ASSETS | <u>\$ 9,712,020</u> | <u>\$ 25,436,783</u> | <u>\$ 4,509,891</u> | <u>\$ 3,143,271</u> | <u>\$ 42,801,965</u> |
| LIABILITIES & FUND BALANCES: | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 569,724 | \$ 208,737 | \$ - | \$ 23,817 | \$ 802,278 |
| Due to other funds | 210,679 | - | - | 297,784 | 508,463 |
| Advances from other funds | 3,560,461 | - | - | - | 3,560,461 |
| Unearned revenue | - | - | - | 7,741 | 7,741 |
| Total Liabilities | <u>4,340,864</u> | <u>208,737</u> | <u>-</u> | <u>329,342</u> | <u>4,878,943</u> |
| Fund Balances: | | | | | |
| Reserved For: | | | | | |
| Advances | 3,560,461 | - | - | - | 3,560,461 |
| Inventory | - | - | - | 39,372 | 39,372 |
| Ad Valorem | 108,819 | - | - | - | 108,819 |
| Debt Service Funds | - | - | - | 755,619 | 755,619 |
| Unemployment benefits | - | - | - | 84,882 | 84,882 |
| Permanent fund purposes | - | - | 4,509,891 | - | 4,509,891 |
| Capital projects funds | - | 25,228,046 | - | - | 25,228,046 |
| Unreserved: | | | | | |
| Undesignated, reported in: | | | | | |
| General fund | 1,701,876 | - | - | - | 1,701,876 |
| Special revenue funds | - | - | - | 1,934,056 | 1,934,056 |
| Total Fund Balances | <u>5,371,156</u> | <u>25,228,046</u> | <u>4,509,891</u> | <u>2,813,929</u> | <u>37,923,022</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 9,712,020</u> | <u>\$ 25,436,783</u> | <u>\$ 4,509,891</u> | <u>\$ 3,143,271</u> | <u>\$ 42,801,965</u> |

**LAUREL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

EXHIBIT C-1

| | | |
|---|----|-------------------|
| Total Fund Balance - Governmental Funds | \$ | 37,923,022 |
| Amounts reported for net assets in the statement of net assets (Exhibit A) are different because: | | |
| 1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,588,542 | | 11,192,734 |
| 2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | (27,292,012) |
| 3. Interest payable on long-term liabilities is not due and payable and therefore are not reported in the funds | | <u>(304,559)</u> |
| Total Net Assets - Governmental Activities | \$ | <u>21,519,185</u> |

LAUREL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT D

| | MAJOR FUNDS | | | | Total Governmental Funds |
|--|---------------------|---------------------------------------|-----------------------------------|--------------------------------|--------------------------------|
| | General Fund | 26.5 Mil Bond Construction Fund | 16th Section Principal Fund | Other Governmental Funds | |
| REVENUES | | | | | |
| Local Sources | \$ 10,035,369 | \$ 308,546 | \$ 164,322 | \$ 799,916 | \$ 11,308,153 |
| State Sources | 12,483,284 | - | - | 911,844 | 13,395,128 |
| Federal Sources | 37,344 | - | - | 6,021,625 | 6,058,969 |
| Sixteenth Section Sources | - | - | 719,336 | 29,578 | 748,914 |
| TOTAL REVENUES | 22,555,997 | 308,546 | 883,658 | 7,762,963 | 31,511,164 |
| EXPENDITURES | | | | | |
| Instruction | 11,929,000 | - | - | 4,131,244 | 16,060,244 |
| Support Services | 12,235,280 | 6,882 | - | 1,602,892 | 13,845,054 |
| Noninstructional Services | 78 | - | - | 1,903,561 | 1,903,639 |
| Facilities Acquisition and Construction | 110,710 | 1,583,023 | - | 302,994 | 1,996,727 |
| Debt Service: | | | | | |
| Principal | - | - | - | 332,000 | 332,000 |
| Interest | 21,373 | - | - | 18,958 | 40,331 |
| TOTAL EXPENDITURES | 24,296,441 | 1,589,905 | - | 8,291,649 | 34,177,995 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,740,444) | (1,281,359) | 883,658 | (528,686) | (2,666,831) |
| OTHER FINANCIAL SOURCES (USES) | | | | | |
| Bond Proceeds | | 26,509,405 | | | 26,509,405 |
| Insurance loss recoveries | 39,770 | | - | - | 39,770 |
| Indirect transfers | 75,304 | | - | (75,304) | - |
| Operating Transfers In | - | | - | 976,248 | 976,248 |
| Operating Transfers Out | (966,210) | | - | (10,038) | (976,248) |
| TOTAL OTHER FINANCING SOURCES (USES) | (851,136) | 26,509,405 | - | 890,906 | 26,549,175 |
| NET CHANGE IN FUND BALANCES | (2,591,580) | 25,228,046 | 883,658 | 362,220 | 23,882,344 |
| JULY 1, 2007 | 7,962,736 | - | 3,626,233 | 2,450,593 | 14,039,562 |
| Increase (decrease) in reserve for inventory | - | - | - | 1,116 | 1,116 |
| FUND BALANCE, JUNE 30, 2008 | \$ 5,371,156 | \$ 25,228,046 | \$ 4,509,891 | \$ 2,813,929 | \$ 37,923,022 |

**LAUREL SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

EXHIBIT D-1

| | | |
|---|----|---------------------|
| Net Change in fund balances - governmental funds | \$ | 23,882,344 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases amounted to \$2,900,532 and the depreciation expense amounted to \$411,807. | | 2,488,725 |
| 2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. | | 332,000 |
| 3. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds. | | (18,638) |
| 4. Increase (decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are increased (decreased) in the Statement of Activities. | | 1,116 |
| 5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: | | |
| (Increase) decrease in compensated absences | | (4,053) |
| 6. Change in interest accrued on long term liabilities not recorded in the governmental funds, but recorded and expensed in the statement of activities. | | (297,789) |
| 7. Proceeds of long-term liabilities not recorded in the governmental funds, but not in the statement of activity | | <u>(26,500,000)</u> |
| Change in net assets of governmental activities | \$ | <u>(116,295)</u> |

**LAUREL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008**

EXHIBIT E

| | <u>Agency Funds</u> |
|--|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ <u>1,307,622</u> |
| TOTAL ASSETS | <u>1,307,622</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 1,229,494 |
| Due to general fund | 10,119 |
| Due to student clubs | <u>68,009</u> |
| TOTAL LIABILITIES | <u>\$ 1,307,622</u> |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(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 below.

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Laurel since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district. For financial reporting purposes, the Laurel School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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

3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable to a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reported the following major governmental funds:

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

26.5 Mil Bond Construction Fund – This fund accounts for all revenues and expenditures related to the bond construction funds.

Sixteenth Section Principal Fund – This is the fund that accounts for all revenues and expenditures of sixteenth section fund that are nonexpendable.

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

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than 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.

The district's fiduciary funds include the following:

Club Funds – Accounts for receipt of money due to various school clubs.

Clearing Funds – Account for claims and payroll liabilities.

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 the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

Governmental funds are reported 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and judgments, are recorded only when the payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial an compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues, to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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

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, 2003* 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. Assets, Liabilities, and Net Assets

1. Cash, Cash equivalents, and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

2. Receivables and payables (continued)

interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are reported at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

LAUREL SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2008

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

6. Capital Assets (continued)

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.

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

| | <u>Capitalization Policy</u> | <u>Estimated Useful Life</u> |
|-------------------------------------|----------------------------------|----------------------------------|
| Land | - | - |
| 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 lease | * | * |

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. 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 provided it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95, Miss. Code Ann. (1972). Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liability. Bond issue cost, bond discounts or premiums, and the difference between acquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 7 details.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

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

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 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.

LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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

9. Fund equity (continued)

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

Reserved for capital projects - An accounts that represents that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other than that for which it is restricted.

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

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

(2) Cash and Cash Equivalents

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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 Deposit Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported on the governmental funds and fiduciary funds was \$37,149,043 and \$1,307,622, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents of \$36,906,681. The bank balance was \$39,832,169.

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

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(2) Cash and Cash Equivalents (continued)

the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$39,832,169 was exposed to custodial credit risk.

(3) Interfund Receivables, Payables, and Transfers

The following is a summary of interfund transactions and balances:

A. Due To/Due From

| | Due To | Due From |
|---------------------------|------------|------------|
| Governmental funds: | | |
| General fund | \$ 210,679 | \$ 316,876 |
| Other governmental funds: | 297,784 | 201,706 |
| Fiduciary funds: | 10,119 | - |
| Totals | \$ 518,582 | \$ 518,582 |

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

B. Advances From/To Other Funds:

| | | |
|----------------------------------|--------------|--------------|
| Governmental funds: | | |
| General fund | \$ 3,560,461 | \$ - |
| Sixteenth section principal fund | - | 3,560,461 |
| Totals | \$ 3,560,461 | \$ 3,560,461 |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(3) Interfund Receivables, Payables, and Transfers (Continued)

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-1.

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

| Year Ending | <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|---------------------|------------------|------------------|
| 2009 | \$ 158,908 | \$ 142,418 | 301,326 | 301,326 |
| 2010 | 165,265 | 136,062 | 301,327 | 301,327 |
| 2011 | 171,875 | 129,451 | 301,326 | 301,326 |
| 2012 | 178,750 | 122,577 | 301,327 | 301,327 |
| 2013 | 185,899 | 115,426 | 301,325 | 301,325 |
| 2014-2018 | 730,278 | 483,821 | 1,214,099 | 1,214,099 |
| 2019-2023 | 888,495 | 325,604 | 1,214,099 | 1,214,099 |
| 2024-2028 | <u>1,080,991</u> | <u>133,108</u> | <u>1,214,099</u> | <u>1,214,099</u> |
| Total | <u>\$ 3,560,461</u> | <u>\$ 1,588,467</u> | <u>5,148,928</u> | <u>5,148,928</u> |

C. Transfers in/out:

| | Transfers In | Transfers Out |
|----------------------------------|-------------------|-------------------|
| Governmental funds: | | |
| General fund | \$ - | \$ 966,210 |
| Bond construction fund | - | - |
| Sixteenth section principal fund | - | - |
| Other governmental funds: | <u>976,248</u> | <u>10,038</u> |
| Totals | <u>\$ 976,248</u> | <u>\$ 976,248</u> |

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

(4) Restricted Assets.

The restricted assets of \$25,679,145 represent the cash balance of \$242,362 in the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs and \$25,436,783 of unspent debt proceeds from the recent \$25.5 million bond issue.

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(5) Capital Assets.

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

| | <u>Balance 7/1/2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Completed Construction</u> | <u>Balance 6/30/2008</u> |
|---|-----------------------------|---------------------|--------------------|-----------------------------------|------------------------------|
| <u>Non-depreciable capital assets:</u> | | | | | |
| Land | \$ 566,683 | \$ - | \$ - | \$ - | \$ 566,683 |
| Construction in progress | <u>600,826</u> | <u>2,580,850</u> | <u>-</u> | <u>(600,826)</u> | <u>2,580,850</u> |
| Total non-depreciable | <u>1,167,509</u> | <u>2,580,850</u> | <u>-</u> | <u>(600,826)</u> | <u>3,147,533</u> |
| <u>Depreciable capital assets:</u> | | | | | |
| Buildings | 7,631,508 | - | - | 600,826 | 8,232,334 |
| Building improvements | 3,562,061 | 62,513 | - | - | 3,624,574 |
| Other Improvements | 557,589 | - | - | - | 557,589 |
| Mobile equipment | 1,765,335 | 40,955 | 133,362 | - | 1,672,928 |
| Furniture and equipment | <u>360,852</u> | <u>216,214</u> | <u>30,748</u> | <u>-</u> | <u>546,318</u> |
| Total depreciable capital assets | <u>13,877,345</u> | <u>319,682</u> | <u>164,110</u> | <u>600,826</u> | <u>14,633,743</u> |
| Less Accumulated Depreciation for: | | | | | |
| Buildings | 3,827,032 | 83,856 | - | - | 3,910,888 |
| Building improvements | 861,665 | 169,016 | - | - | 1,030,681 |
| Other Improvements | 89,852 | 22,304 | - | - | 112,156 |
| Mobile equipment | 1,220,274 | 93,761 | 120,027 | - | 1,194,008 |
| Furniture and equipment | <u>323,384</u> | <u>42,870</u> | <u>25,445</u> | <u>-</u> | <u>340,809</u> |
| Total Accumulated Depreciation | <u>6,322,207</u> | <u>411,807</u> | <u>145,472</u> | <u>-</u> | <u>6,588,542</u> |
| Total Depreciable Capital Assets, Net | <u>7,555,138</u> | <u>(92,125)</u> | <u>18,638</u> | <u>600,826</u> | <u>8,045,201</u> |
| Governmental Activities Capital | | | | | |
| Assets, Net | <u>\$ 8,722,647</u> | <u>\$ 2,488,725</u> | <u>\$ 18,638</u> | <u>\$ -</u> | <u>\$ 11,192,734</u> |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(5) Capital Assets. (Continued)

Depreciation expense was charged to the following governmental functions:

| | <u>Amount</u> |
|--------------------------------|----------------|
| Instruction | \$ 264,779 |
| Support Services | 113,041 |
| Noninstructional | 33,987 |
| Total depreciation expense | \$ 411,807 |

The capital assets above include significant amounts of buildings and furniture and fixtures 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.

Construction projects included in governmental activities are funded with general obligations bonds.

(6) Commitments Under Construction

Commitments under construction at June 30, 2008 are summarized as follows:

| <u>Description</u> | <u>Remaining Contract</u> | <u>Required Future Financing</u> |
|--------------------------|-------------------------------|--|
| Laurel Middle School | 16,135,700 | - |
| Additons & Renovations | 11,017,800 | - |
| Oak Park Doors & Windows | 185,542 | - |
| | 27,339,042 | - |

Funds for the projects are being funded by the \$26.5 million Bond Issue and a loan from 16th Section Principal Funds

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(7) Long-term Liabilities.

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

| | Balance <u>7/1/2007</u> | <u>Additions</u> | <u>Reductions</u> | Balance <u>6/30/2008</u> | Amounts due within one <u>year</u> |
|-------------------------------------|----------------------------|----------------------|-------------------|-----------------------------|--|
| A. General obligation bonds payable | \$ 42,000 | \$ 26,500,000.00 | \$ 42,000.00 | \$ 26,500,000 | \$ 530,000 |
| B. Three mill notes payable | 805,000 | - | 290,000.00 | 515,000 | 298,000 |
| C. Compensated absences payable | <u>272,959</u> | <u>4,053</u> | <u>-</u> | <u>277,012</u> | <u>-</u> |
| Total | <u>\$ 1,119,959</u> | <u>\$ 26,504,053</u> | <u>\$ 332,000</u> | <u>\$ 27,292,012</u> | <u>\$ 828,000</u> |

A. General Obligation Bonds Payable

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

| | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|-----------------|--------------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| 2008 G.O. Bonds | 3.50%-5.00% | 4/1/2008 | 4/1/2028 | <u>\$26,500,000</u> | <u>\$26,500,000</u> |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(7) Long-term Liabilities. (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> |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2009 | \$ 530,000 | \$ 1,794,622 | \$ 2,324,622 |
| 2010 | 600,000 | 1,171,782 | 1,771,782 |
| 2011 | 675,000 | 1,149,469 | 1,824,469 |
| 2012 | 750,000 | 1,124,531 | 1,874,531 |
| 2013 | 850,000 | 1,096,531 | 1,946,531 |
| 2014-2018 | 5,695,000 | 4,874,060 | 10,569,060 |
| 2019-2023 | 7,775,000 | 3,316,294 | 11,091,294 |
| 2024-2028 | <u>9,625,000</u> | <u>1,130,350</u> | <u>10,755,350</u> |
| Total | <u>\$ 26,500,000</u> | <u>\$ 15,657,639</u> | <u>\$ 42,157,639</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, 2008, the amount of outstanding bonded indebtedness was equal to 15.70% of property assessments as of September 4, 2007. This debt will be retired from the 2008 26.5 Mil Debt Service Fund.

B. 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> |
|------------------------------|--------------------------|-----------------------|--------------------------|----------------------------|-------------------------------|
| Limited Tax Note Series 2003 | 1.60 - 3.00% | 5/1/2003 | 9/15/2009 | \$ <u>1,695,000</u> | \$ <u>515,000</u> |
| Total | | | | <u>\$ 1,695,000</u> | <u>\$ 515,000</u> |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(7) Long-term Liabilities. (Continued)

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-------------------|------------------|-------------------|
| 2009 | \$ 298,000 | 10,608 | \$ 308,608 |
| 2010 | <u>217,000</u> | <u>3,255</u> | <u>220,255</u> |
| Total | <u>\$ 515,000</u> | <u>\$ 13,863</u> | <u>\$ 528,863</u> |

This debt will be retired from the Three Mill Refunding Escrow Fund.

C. Compensated absences payable.

As more fully explained in Note 1, F., 7, 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.

(8) 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 rate for fiscal year ended June 30, 2008, was 11.85% 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, 2008, 2007 and 2006 were \$1,831,602, \$1,803,484 and \$1,590,711, respectively, which equaled the required contributions for each year.

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(9) 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 Laurel School District does not have control or jurisdiction over any school trust lands but rather receives pro rata distributions of funds from Sixteenth section lands administered by the Jones County School District.

(10) Other Commitments.

Commitments under construction contracts are described in Note 6.

Operating leases:

The school district has several operating leases for the following:

1. Cannon IR 5070 copiers (2) at Nora Davis Magnet School
2. Cannon IR 5570 copiers at Jones Junior High School
3. Cannon IR 5070 copier at Mason Elementary School
4. Cannon IR 3035 copier at Mason Elementary School
5. Cannon IR 5070 copier at Oak Park Elementary School
6. Cannon IR 5070 copier at Oak Park Elementary School
7. Cannon IR 5070 copier at Stainton Elementary School
8. Cannon IR 5070 copier at R.H. Watkins High School
9. Cannon IR 5070 copier at R.H. Watkins High School – Vo Tech School
10. Cannon IR 3570 copier at Laurel Education Center
11. Cannon IR 5070 copier at Jones Junior High School
12. Cannon IR 5070 copier at Central Office
13. Cannon IRC 4580 copier at Special Education Central Office
14. Cannon IR 5570 at Central Office
15. Cannon IR 5070 copier at Maddox/Stainton upper grades

Lease expenditures for the year ended June 30, 2008, amounted to \$30,551. Future lease payments for these leases are as follows:

| Year Ending | <u>Amount</u> |
|----------------|------------------|
| <u>June 30</u> | |
| 2009 | \$54,273 |
| 2010 | 46,653 |
| 2011 | 27,127 |
| 2012 | <u>3,480</u> |
| Total | <u>\$131,533</u> |

**LAUREL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(11) Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

(12) Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

REQUIRED SUPPLEMENTARY INFORMATION

**LAUREL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

SCHEDULE 1a

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|---------------------|---------------------|------------------------|-----------------------|---------------------|
| | | | | Positive (Negative) | |
| | Original | Final | | Original to Final | Final to Actual |
| REVENUES | | | | | |
| Local Sources | \$ 9,048,016 | \$ 10,035,369 | \$ 10,035,369 | \$ 987,353 | \$ - |
| State Sources | 12,334,272 | 12,483,284 | 12,483,284 | 149,012 | - |
| Federal Sources | 192,045 | 37,344 | 37,344 | (154,701) | - |
| TOTAL REVENUES | 21,574,333 | 22,555,997 | 22,555,997 | 981,664 | - |
| EXPENDITURES | | | | | |
| Instruction | 12,194,210 | 11,869,183 | 11,929,000 | (325,027) | (59,817)* |
| Support Services | 8,132,549 | 12,020,740 | 12,235,280 | 3,888,191 | (214,520)* |
| Noninstructional Service | - | 78 | 78 | 78 | - |
| Facilities Acquisition & Construction | 825,000 | 110,710 | 110,710 | (714,290) | - |
| Debt Service | 58,507 | 21,373 | 21,373 | (37,134) | - |
| TOTAL EXPENDITURES | 21,210,266 | 24,022,084 | 24,296,441 | 2,811,818 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 364,067 | (1,466,087) | (1,740,444) | (1,830,154) | (274,357) |
| OTHER FINANCIAL SOURCES (USES) | | | | | |
| Insurance loss recoveries | - | 39,770 | 39,770 | 39,770 | - |
| Indirect costs transfers | 134,463 | 75,304 | 75,304 | (59,159) | - |
| Proceeds of loans | - | - | - | - | - |
| Operating transfers in | 622,277 | 443,266 | - | (179,011) | (443,266) |
| Operating transfers out | (1,175,083) | (1,409,476) | (966,210) | (234,393) | 443,266 |
| TOTAL OTHER FINANCING SOURCES (USES) | (418,343) | (851,136) | (851,136) | (432,793) | - |
| NET CHANGE IN FUND BALANCES | (54,276) | (2,317,223) | (2,591,580) | (2,262,947) | (274,357) |
| FUND BALANCES: | | | | | |
| July 1, 2007 | 8,052,097 | 7,962,736 | 7,962,736 | (89,361) | - |
| FUND BALANCE, JUNE 30, 2008 | \$ 7,997,821 | \$ 5,645,513 | \$ 5,371,156 | \$ (2,352,308) | \$ (274,357) |

* As a result of audit adjustment

**LAUREL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE 26.5 MIL BOND CONSTRUCTION FUND
FOR THE YEAR ENDED JUNE 30, 2008**

SCHEDULE 1b

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|----------------------|------------------------|----------------------|--------------------|
| | | | | Positive (Negative) | |
| | Original | Final | | Original to Final | Final to Actual |
| REVENUES | | | | | |
| Local Sources | \$ - | \$ 308,546 | \$ 308,546 | \$ 308,546 | \$ - |
| State Sources | - | - | - | - | - |
| Federal Sources | - | - | - | - | - |
| TOTAL REVENUES | - | 308,546 | 308,546 | 308,546 | - |
| EXPENDITURES | | | | | |
| Instruction | - | - | - | - | - |
| Support Services | - | 6,882 | 6,882 | 6,882 | - |
| Noninstructional Services | - | - | - | - | - |
| Facilities Acquisition & Const. | - | 1,583,023 | 1,583,023 | 1,583,023 | - |
| Debt Service: | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | - | - |
| TOTAL EXPENDITURES | - | 1,589,905 | 1,589,905 | 1,589,905 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | - | (1,281,359) | (1,281,359) | (1,281,359) | - |
| OTHER FINANCIAL SOURCES (USES) | | | | | |
| Sale of property | - | - | - | - | - |
| Indirect Costs | - | - | - | - | - |
| Operating Transfers In | - | - | - | - | - |
| Other financing sources | - | 26,509,405 | 26,509,405 | 26,509,405 | - |
| Other financing uses | - | - | - | - | - |
| Operating Transfers Out | - | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | 26,509,405 | 26,509,405 | 26,509,405 | - |
| NET CHANGE IN FUND BALANCES | - | 25,228,046 | 25,228,046 | 25,228,046 | - |
| FUND BALANCE, JULY 1, 2007 | - | - | - | - | - |
| FUND BALANCE, JUNE 30, 2008 | \$ - | \$ 25,228,046 | \$ 25,228,046 | \$ 25,228,046 | \$ - |

**LAUREL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules 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 and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

**LAUREL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Catalog of Federal Domestic Assistance Number | SCHEDULE 2 Federal Expenditures |
|--|---|---------------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | |
| Passed-Through Mississippi Dept. of Education: | | |
| Child Nutrition Cluster | | |
| School Breakfast Program | 10.553 | 399,674 |
| National School Lunch Program | 10.555 | <u>1,136,648</u> |
| Total Child Nutrition Cluster | | <u>1,536,322</u> |
| Total U.S. Dept. of Agriculture | | <u>1,536,322</u> |
| <u>FEDERAL COMMUNICATIONS COMMISSION</u> | | |
| Administered through the Universal Service Administrative Company: | | |
| The schools and libraries program of the universal service fund | 32.xxx | <u>37,344</u> |
| Total Federal Communications Commission | | <u>37,344</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | |
| Impact Aid | 84.041 | 29,146 |
| <u>Literacy through School Libraries</u> | 84.364 | <u>258,503</u> |
| Total U.S. Dept of Education - Direct | | <u>287,649</u> |
| Passed-Through Mississippi Dept. of Education: | | |
| Title I Grants to Local Educational Agencies | 84.010 | 1,835,005 |
| Career and technical education-basic grants to states | 84.048 | 61,480 |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | 24,924 |
| Twenty-First Century Community Learning Centers | 84.287 | 170,406 |
| State Grants for Innovative Programs | 84.298 | 20,162 |
| Education Technology State Grants | 84.318 | 21,805 |
| Teacher Quality Enhancement Grants | 84.336 | 540 |
| Reading First State Grants | 84.357 | 895,806 |
| Rural Education | 84.358 | 84,484 |
| English Language Acquisition Grants | 84.365 | 1,183 |
| Improving Teacher Quality - State Grants | 84.367 | <u>295,227</u> |
| Total | | <u>3,411,022</u> |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | 767,650 |
| Special Education - Preschool Grants | 84.173 | <u>19,527</u> |
| Total Special Education Cluster | | <u>787,177</u> |
| Total Passed-Through MDE | | <u>4,198,199</u> |
| Total U.S. Department of Education | | <u>4,485,848</u> |
| Total for all Federal Awards | | <u>\$ 6,059,514</u> |

NOTES TO THE SCHEDULE:

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

**LAUREL SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Expenditures</u> | <u>Total</u> | <u>Instruction</u> | <u>General Administrative</u> | <u>School Administrative</u> | <u>Other</u> |
|------------------------------|----------------------|----------------------|-----------------------------------|----------------------------------|----------------------|
| Salaries and fringe benefits | \$ 21,933,979 | \$ 16,676,700 | \$ 852,988 | \$ 1,502,764 | \$ 2,901,527 |
| Other | <u>12,244,016</u> | <u>2,392,867</u> | <u>211,399</u> | <u>66,944</u> | <u>9,572,806</u> |
| Total | <u>\$ 34,177,995</u> | <u>\$ 19,069,567</u> | <u>\$ 1,064,387</u> | <u>\$ 1,569,708</u> | <u>\$ 12,474,333</u> |
| | | | | | |
| Total number of students * | 2,885 | | | | |
| | | | | | |
| Cost per student | \$ 11,847 | \$ 6,610 | \$ 369 | \$ 544 | \$ 4,324 |

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

Instruction and Other Student Instructional 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-School Administration (2400s)

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

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission of the year

Noe: Include 100 and 200 range object codes on the Salaries and Fringe Benefits line; all other expenditures on the Other Line

LAUREL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
LAST FOUR YEARS

| | "UNAUDITED" | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007*</u> | <u>2006*</u> | <u>2005*</u> |
| REVENUES | | | | |
| Local Sources | \$ 10,035,369 | \$ 8,881,957 | \$ 8,403,865 | \$ 7,367,405 |
| State Sources | 12,483,284 | 11,351,412 | 11,166,413 | 10,516,857 |
| Federal Sources | 37,344 | 330,474 | 94,919 | 59,255 |
| Sixteenth Section Sources | - | - | - | - |
| TOTAL REVENUES | <u>22,555,997</u> | <u>20,563,843</u> | <u>19,665,197</u> | <u>17,943,517</u> |
| EXPENDITURES | | | | |
| Instruction | 11,929,000 | 11,067,675 | 8,551,987 | 10,083,911 |
| Support Services | 12,235,280 | 7,794,198 | 6,607,864 | 6,975,881 |
| Noninstructional Services | 78 | - | - | - |
| Sixteenth Section | 110,710 | - | - | - |
| Facilities Acquisition & Construction | - | 2,348,593 | 1,892,719 | - |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | 21,373 | - | - | - |
| TOTAL EXPENDITURES | <u>24,296,441</u> | <u>21,210,466</u> | <u>17,052,570</u> | <u>17,059,792</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(1,740,444)</u> | <u>(646,623)</u> | <u>2,612,627</u> | <u>883,725</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating Transfers In | - | 9,495 | 410,830 | 1,045,757 |
| Insurance Loss Recoveries | 39,770 | 634,348 | 1,109,990 | - |
| Indirect Cost Transfer In | 75,304 | 100,175 | 84,502 | - |
| Operating Transfers Out | (966,210) | (395,873) | (671,185) | (1,033,062) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(851,136)</u> | <u>348,145</u> | <u>934,137</u> | <u>12,695</u> |
| NET CHANGE IN FUND BALANCES | <u>(2,591,580)</u> | <u>(298,478)</u> | <u>3,546,764</u> | <u>896,420</u> |
| FUND BALANCES: | | | | |
| July 1 | 7,962,736 | 8,267,025 | 4,720,261 | 3,824,225 |
| Prior period adjustment | - | (5,811) | - | (384) |
| July 1, as restated | <u>7,962,736</u> | <u>8,261,214</u> | <u>4,720,261</u> | <u>3,823,841</u> |
| June 30 | <u>\$ 5,371,156</u> | <u>\$ 7,962,736</u> | <u>\$ 8,267,025</u> | <u>\$ 4,720,261</u> |

SOURCE - PRIOR YEAR AUDIT REPORTS

LAUREL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
LAST FOUR YEARS

"UNAUDITED"

| | <u>2008</u> | <u>2007*</u> | <u>2006*</u> | <u>2005*</u> |
|--|----------------------|----------------------|----------------------|---------------------|
| REVENUES | | | | |
| Local Sources | \$ 11,308,153 | \$ 9,843,807 | \$ 9,391,677 | \$ 8,211,538 |
| State Sources | 13,395,128 | 12,116,711 | 11,912,392 | 11,824,863 |
| Federal Sources | 6,058,969 | 5,805,095 | 8,890,175 | 5,344,320 |
| Sixteenth Section Sources | <u>748,914</u> | <u>588,738</u> | <u>735,448</u> | <u>637,258</u> |
| TOTAL REVENUES | <u>31,511,164</u> | <u>28,354,351</u> | <u>30,929,692</u> | <u>26,017,979</u> |
| EXPENDITURES | | | | |
| Instruction | 16,060,244 | 14,980,963 | 14,474,583 | 13,431,158 |
| Support Services | 13,845,054 | 9,550,788 | 9,160,845 | 9,296,336 |
| Noninstructional Services | 1,903,639 | 974,598 | 1,643,603 | 1,492,692 |
| Facilities Acquisition & Construction | 1,996,727 | 2,348,593 | 1,916,647 | - |
| Debt Service: | | | | |
| Principal | 332,000 | 486,000 | 481,000 | 496,000 |
| Interest | 40,331 | 31,123 | 41,838 | 57,755 |
| Other | <u>-</u> | <u>-</u> | <u>9,193</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>34,177,995</u> | <u>28,372,065</u> | <u>27,727,709</u> | <u>24,773,941</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(2,666,831)</u> | <u>(17,714)</u> | <u>3,201,983</u> | <u>1,244,038</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating Transfers In | 976,248 | 547,144 | 897,082 | 1,773,568 |
| Bond Proceeds | 26,509,405 | - | - | - |
| Insurance Loss Recoveries | 39,770 | 634,348 | 1,109,990 | - |
| Other Financing Sources | - | 438 | - | - |
| Operating Transfers Out | <u>(976,248)</u> | <u>(547,144)</u> | <u>(897,082)</u> | <u>(1,773,568)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>26,549,175</u> | <u>634,786</u> | <u>1,109,990</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 23,882,344 | 617,072 | 4,311,973 | 1,244,038 |
| FUND BALANCES: | | | | |
| July 1 | 14,039,562 | 13,427,690 | 9,095,740 | 7,855,164 |
| Prior Period Adjustment | - | <u>(5,811)</u> | - | <u>(384)</u> |
| July 1, as Restated | <u>14,039,562</u> | <u>13,421,879</u> | <u>9,095,740</u> | <u>7,854,780</u> |
| Increase (decrease) in reserve for inventory | <u>1,116</u> | <u>611</u> | <u>19,977</u> | <u>(3,077)</u> |
| June 30 | <u>\$ 37,923,022</u> | <u>\$ 14,039,562</u> | <u>\$ 13,427,690</u> | <u>\$ 9,095,741</u> |

SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

HOLT & ASSOCIATES, PLLC

W. David Dill, CPA, CGFM
Julie M. Uher, CPA

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

Superintendent and School Board
Laurel School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Laurel School District as of and for the year ended June 30, 2008, which collectively comprise Laurel School District's basic financial statements and have issued our report thereon dated January 19, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated January 19, 2009, 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.

Hoff + Associates

January 19, 2009

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Laurel School District

Compliance

We have audited the compliance of the Laurel School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Laurel School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the Laurel School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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.



January 19, 2009

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

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

Phone (601) 649-3000
Fax (601) 649-3050

Superintendent and School Board
Laurel School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Laurel School District as of and for the year ended June 30, 2008, which collectively comprise Laurel School District's basic financial statements and have issued our report thereon dated January 19, 2009. 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) (a), 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 the following instance(s) of noncompliance. The noncompliance is reported in finding number one below. The district reported no classroom supply funds carried over from previous years.

Section 37-9-18(3) (b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3) (b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect coding or inappropriate functional level expenditure coding.

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

Finding #1:

In one instance, educational enhancement funds were used to purchase reward supplies. Also, one teacher was receiving educational enhancement funds while being a federally funded teacher.

Recommendation:

In accordance with Section 31-61-33(3) (a) (iii), Miss. Code Ann. (1972), the Classroom Supplies and Instructional Materials Funds may only be used for the acquisition of classroom supplies, instructional materials and/or equipment. Teacher's spending plans should be reviewed before approval to ensure that all purchases are in accordance with the law. The district should allocate the funds equally among all classroom teachers. The term "teacher" shall mean any employee of the school district required by law to obtain a teacher's license from the State Board of Education and is assigned an instructional area of work, but shall not include any federally funded teacher.

District Response:

The district will review all purchases by teachers from education enhancement funds to assure compliance with statute and state board policy. Also, the district will review all allocations of educational enhancement funds to ensure no federally funded teacher receives funds.

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.

The Laurel School District's response to the finding included in this report was not audited, and accordingly we express no opinion on it.

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.



January 19, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LAUREL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's 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. Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) 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. 21 st Century Community Learning Centers, CFDA #84.287 | |
| b. Reading First State Grants, CFDA# 84.357 | |
| c. Improving Teacher Quality-State Grants, CFDA #84.367 | |
| d. Literacy through School Libraries, CFDA#84.364 | |

LAUREL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? Yes
10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315 (B) of OMB Circular A-133? No

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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