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LEE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2008

Charles L. Shivers, CPA
Ridgeland, MS

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FINANCIAL AUDIT REPORT

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CHARLES L. SHIVERS

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lee County School District

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County 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*, I have also issued my report dated January 30, 2009, on my consideration of the Lee County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of 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 my audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules and related notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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

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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, I express no opinion on it.

Ridgeland, MS
January 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MIKE SCOTT, SUPERINTENDENT

KEITH STEELE, ASSISTANT SUPERINTENDENT

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

The discussion and analysis of Lee County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased $3,339,587, which represents 10% increase from fiscal year 2007.
- General revenues account for $47,651,114 in revenue, or 84.3% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $8,880,992 or 15.7% of total revenues.
- The District had $53,192,519 in expenses; only $8,880,992 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $47,651,114 were adequate to provide for these programs.
- Among major funds, the General Fund had $44,739,244 in revenues and $43,161,264 in expenditures. The General Fund's fund balance increased $70,690 over the prior year.
- Capital assets, net of accumulated depreciation, increased by $253,111.
- Long-term debt decreased by $1,387,294.

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.

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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, and interest and other expenses on long-term liabilities.

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

> **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The governmental funds statements provide a detailed short-term view of the school district's operations.
>
> Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
>
> The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.
>
> **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Cir. A-133 and a Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, as required by the Mississippi State Auditor, can be found in this report. Also, this report includes a Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund, Last Four Years and a Statement of Revenues, Expenditures and Changes in Fund Balance, All Governmental Funds, Last Four Years as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $36,632,779 as of June 30, 2008.

By far the largest portion of the District's net assets (63.6%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets. The following table presents a summary of the District's net assets as of June 30, 2008 and 2007, respectively.

	Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Current assets	$ 11,648,267	$ 15,352,199	-24.1 %
Restricted assets	2,753,453	0	100.0 %
Long-term deferred charge	337,820	361,950	-6.7 %
Non-depreciable capital assets	1,500,767	800,495	87.5 %
Depreciable capital assets, net	46,391,310	46,838,471	-1.0 %
Total assets	62,631,617	63,353,115	-1.1 %
Current liabilities	881,129	3,554,920	-75.2 %
Long-term debt outstanding	25,117,709	26,505,003	-5.2 %
Total liabilities	25,998,838	30,059,923	-13.5 %
Net assets:			
Invested in capital assets, net of related debt	23,307,077	21,703,966	7.4 %
Restricted	2,991,754	2,791,811	7.2 %
Unrestricted	10,333,948	8,797,415	17.5 %
Total net assets	$ 36,632,779	$ 33,293,192	10.0 %

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

- The principal retirement of $2,074,934 of long-term debt.
- The addition of $2,018,804 in capital assets from the construction of a new school addition.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were $56,532,106. The total cost of all programs and services was $53,192,519. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2008 and 2007, respectively.

	Change in Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Revenues:			
Program revenues:			
Charges for services	$ 2,260,178	$ 2,329,556	-3.0 %
Operating grants and contributions	6,620,814	6,856,254	-3.4 %
General revenues:			
Property taxes	13,665,450	12,736,093	7.3 %
Grants and contributions not restricted	33,961,114	28,910,661	17.5 %
Other	24,550	478,085	-94.9 %
Total revenues	56,532,106	51,310,649	10.2 %
Expenses:			
Instruction	31,247,244	29,718,805	5.1 %
Support services	17,407,069	16,079,164	8.3 %
Non-instructional	3,455,666	3,199,205	8.0 %
Interest and other expense on long-term liabilities	1,082,540	1,270,913	-14.8 %
Total expenses	53,192,519	50,268,087	5.8 %
Increase (Decrease) in net assets	3,339,587	1,042,562	220.3 %
Net Assets, July 1	33,293,192	32,250,630	3.2 %
Net Assets, June 30	$ 36,632,779	$ 33,293,192	10.0 %

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, and interest and other expenses on long-term debt for fiscal years ending June 30, 2008 and 2007, respectively. 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.

	2008		2007	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	$ 31,247,244	$ (26,886,467)	$ 29,718,805	$ (25,585,406)
Support services	17,407,069	(16,251,733)	16,079,164	(14,390,680)
Non-instructional	3,455,666	(90,787)	3,199,205	164,722
Interest and other expenses on long-term liabilities	1,082,540	(1,082,540)	1,270,913	(1,270,913)
Total expenses	$ 53,192,519	$ (44,311,527)	$ 50,268,087	$ (41,082,277)

- Net cost of governmental activities ($44,311,527), was financed by general revenue, which is made up of primarily property taxes ($13,665,450) and state revenue ($33,145,248).

- Investment earnings accounted for $484,309 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $13,912,328, an increase of $1,722,188. $7,024,326 or 50.5% of the fund balance constitutes unreserved, undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $6,888,002 or 49.5% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was $70,690. The fund balance of Other Governmental Funds showed an increase of $198,819.

BUDGETARY HIGHLIGHTS

Budget amounts for revenue from state sources were increased to full funding for Mississippi Adequate Education.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were $66,392,188, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $1,744,982 from the previous year. Total accumulated depreciation as of June 30, 2008 was $18,500,111 and total depreciation expense for the year was $1,669,382, resulting in total net assets of $47,892,077.

	Capital Assets, Net of Depreciation		Percentage
	2008	2007	Change
Land	$ 800,495	$ 800,495	0.0 %
Construction in progress	700,272	0	100.0 %

Buildings	42,242,495	43,114,153	-2.0 %
Building improvements	823,816	637,250	29.3 %
Improvements other than buildings	298,365	321,597	-7.2 %
Mobile equipment	2,629,382	2,280,532	15.3 %
Furniture and equipment	397,252	484,939	-18.1 %
Total	$ 47,892,077	$ 47,638,966	0.5 %

Debt Administration. At June 30, 2008, the District had $25,117,709 in general obligation bonds and other long-term debt outstanding, of which $2,353,433 is due within one year.

	Outstanding Debt		Percentage
	2008	2007	Change
General obligation bonds payable	$ 23,935,000	$ 25,285,000	-5.3 %
Three mill notes payable	650,000	650,000	0.0 %
Shortfall notes payable	71,539	146,473	-51.2 %
Compensated absences payable	461,170	423,530	8.9 %
Total	$ 25,117,709	$ 26,505,003	-5.2 %

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has increased 10% over 4 years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase by 200 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Lee County School District, 1280 College View Drive, Tupelo, MS 38804.

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BASIC FINANCIAL STATEMENTS

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Lee County School District
Statement of Net Assets
June 30, 2008

Exhibit A

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	$ 10,541,797
Due from other governments	$ 1,004,689
Inventories	$ 101,781
Restricted assets (Note 4)	$ 2,753,453
Long-term deferred charge (Note 11)	$ 337,820
Non-depreciable capital assets (Note 5)	$ 1,500,767
Depreciable capital assets, net (Note 5)	$ 46,391,310
Total Assets	$ 62,631,617
Liabilities	
Accounts payable and accrued liabilities	$ 474,783
Unearned revenue	$ 14,609
Interest payable on long-term liabilities	$ 391,737
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	$ 2,245,000
Non-capital related liabilities	$ 108,433
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	$ 22,340,000
Non-capital related liabilities	$ 424,276
Total Liabilities	$ 25,998,838
Net assets	
Investment in capital assets (net of related debt)	$ 23,307,077
Restricted net assets	
Expendable	
School-based activities	$ 287,216
Debt service	$ 2,449,998
Capital improvements	$ 296,914
Ad valorem escrow	$ 101,781
Unemployment benefits	$ 152,759
Unrestricted	$ 10,037,034
Total Net Assets	$ 36,632,779

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

Lee County School District
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities				
Instruction	$ 31,247,244	$ 1,139,387	$ 3,221,390	$ (26,886,467)
Support services	$ 17,407,069		$ 1,155,336	$ (16,251,733)
Non-instructional	$ 3,455,666	$ 1,120,791	$ 2,244,088	$ (90,787)
Interest and other expenses on long-term liabilities	$ 1,082,540			$ (1,082,540)
Total Governmental Activities	$ 53,192,519	$ 2,260,178	$ 6,620,814	$ (44,311,527)
General Revenues				
Taxes				
General purpose levies				$ 10,511,317
Debt purpose levies				$ 3,154,133
Unrestricted grants and contributions				
State				$ 33,145,248
Federal				$ 331,557
Unrestricted investment earnings				$ 484,309
Other				$ 24,550
Total General Revenues				$ 47,651,114
Changes in Net Assets				$ 3,339,587
Net Assets - Beginning				$ 33,293,192
Net Assets - Ending				$ 36,632,779

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

Lee County School District
Balance Sheet - Governmental Funds
June 30, 2008

Exhibit C

	Major Funds				
	General Fund	EHA Part B Fund	School Building Project Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 2)	$ 6,392,638		$ 3,700,928	$ 3,201,684	$ 13,295,250
Due from other governments	$ 623,098	$ 90,710		$ 290,881	$ 1,004,689
Due from other funds (Note 3)	$ 213,522				$ 213,522
Inventories				$ 101,781	$ 101,781
Total Assets	$ 7,229,258	$ 90,710	$ 3,700,928	$ 3,594,346	$ 14,615,242
Liabilities and Fund Balances					
Liabilities					
Accounts payable & accrued liabilities	$ 225,761		$ 175,588	$ 73,434	$ 474,783
Due to other funds (Note 3)		$ 90,710		$ 122,812	$ 213,522
Unearned revenue				$ 14,609	$ 14,609
Total Liabilities	$ 225,761	$ 90,710	$ 175,588	$ 210,855	$ 702,914
Fund Balances					
Reserved for					
Capital project purposes			$ 296,914		$ 296,914
Debt service purposes				$ 2,841,735	$ 2,841,735
Unemployment benefits				$ 152,759	$ 152,759
Inventory				$ 101,781	$ 101,781
Ad valorem	$ 266,387				$ 266,387
Unreserved					
Designated, reported in					
Capital projects funds			$ 3,228,426		$ 3,228,426
Undesignated, reported in					
General fund	$ 6,737,110				$ 6,737,110
Special revenue funds				$ 287,216	$ 287,216
Total Fund Balances	$ 7,003,497	$ -	$ 3,525,340	$ 3,383,491	$ 13,912,328
Total Liabilities and Fund Balances	$ 7,229,258	$ 90,710	$ 3,700,928	$ 3,594,346	$ 14,615,242

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

Lee County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

Exhibit C-1

	Amount
Total fund balance - governmental funds	$ 13,912,328
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of $18,500,111.	$ 47,892,077
Bond issue cost are reported as long-term deferred charges in the statement of net assets, but were reported as current period expenditures in the governmental funds.	$ 337,820
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.	$ (25,117,709)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	$ (391,737)
Total net assets - governmental activities	$ 36,632,779

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

Lee County School District
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2008

Exhibit D

	Major Funds				
	General Fund	EHA Part B Fund	School Building Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local sources	$ 12,154,081		$ 61,622	$ 4,360,712	$ 16,576,415
State sources	$ 32,259,102			$ 1,715,297	$ 33,974,399
Federal sources	$ 326,061	$ 1,281,712		$ 4,348,969	$ 5,956,742
Total Revenues	$ 44,739,244	$ 1,281,712	$ 61,622	$ 10,424,978	$ 56,507,556
Expenditures					
Instruction	$ 26,347,371	$ 818,318		$ 3,060,496	$ 30,226,185
Support services	$ 16,350,104	$ 447,751		$ 875,312	$ 17,673,167
Noninstructional services				$ 3,229,080	$ 3,229,080
Facilities acquisition and construction	$ 463,789		$ 708,943		$ 1,172,732
Debt service					
Principal (Note 6)				$ 2,074,934	$ 2,074,934
Interest				$ 1,077,295	$ 1,077,295
Other				$ 6,525	$ 6,525
Total Expenditures	$ 43,161,264	$ 1,266,069	$ 708,943	$ 10,323,642	$ 55,459,918
Excess (Deficiency) of Revenues Over Expenditures	$ 1,577,980	$ 15,643	$ (647,321)	$ 101,336	$ 1,047,638
Other Financing Sources (Uses)					
Proceeds of loans (Note 6)	$ 650,000				$ 650,000
Insurances loss recoveries	$ 24,550				$ 24,550
Operating transfers in (Note 3)	$ 15,643		$ 2,100,000	$ 97,483	$ 2,213,126
Operating transfers out (Note 3)	$ (2,197,483)	$ (15,643)			$ (2,213,126)
Total Other Financing Sources (Uses)	$ (1,507,290)	$ (15,643)	$ 2,100,000	$ 97,483	$ 674,550
Net Change in Fund Balances	$ 70,690	$ -	$ 1,452,679	$ 198,819	$ 1,722,188
Fund Balances					
July 1, 2007	$ 6,932,807	$ -	$ 2,072,661	$ 3,184,828	$ 12,190,296
Decrease in reserve for inventory				$ (156)	$ (156)
June 30, 2008	$ 7,003,497	$ -	$ 3,525,340	$ 3,383,491	$ 13,912,328

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

Lee County School District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008

Exhibit D-1

		Amount
Net change in fund balance - governmental funds	$	1,722,188
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to $2,018,804 and the depreciation expense amounted to $1,669,382.	$	349,422
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.	$	2,074,934
Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and the expense amortized in the statement of activities.	$	(24,130)
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	$	(37,640)
Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities.	$	(650,000)
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.	$	(96,311)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	$	1,280
The governmental funds reported a decrease in reserve for inventory while the transaction is not reported in the statement of activities.	$	(156)
Changes in net assets of governmental activities	$	3,339,587

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

Lee County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2008

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents (Note 2)	$ 2,938,927
Total Assets	$ 2,938,927
Liabilities	
Accounts payable and accrued liabilities	$ 2,782,228
Due to student clubs	$ 156,699
Total Liabilities	$ 2,938,927

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

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(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

For financial reporting purposes, the 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 the 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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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 with 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 reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

EHA Part B Fund - This special revenue fund is federally funded and is used to account for expenditures associated with children with disabilities.

School Building Project Fund - This capital projects is used to account for expenditures for construction, repairs and renovations of school building and related facilities.

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

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing - This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts - These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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.

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 recorded when earned and expenses are recorded when a 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both 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 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 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 and 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 county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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.

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 maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Assets, liabilities, and net assets or equity

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 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 an original 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 interfold loans) or "advances to/from other funds"(i.e. the non-current portion of 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.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes.

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 recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs 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.

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.

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

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

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

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 liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition 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 11 for 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 capital projects - An account that represents that portion of the fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

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

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

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.

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

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 districts' 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 in the governmental funds and fiduciary funds was $13,295,250 and $ 2,938,927, respectively. The carrying amount of deposits reported in the government-wide financial statements was $10,541,797. The bank balance was $18,058,546.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

Receivable Fund	Payable Fund		Amount
General Fund	Major Fund - EHA Part B Fund	$	90,710
	Other governmental funds	$	122,812
Total		$	213,522

The purpose of the more significant interfund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Interfund Transfers.

Transfer Out	Transfer In		Amount
General Fund	Major Fund - School Building Project	$	2,100,000
	Other governmental funds	$	97,483
Major Fund - EHA Part B	General Fund	$	15,643
Total		$	2,213,126

The transfer out of the General Fund was for the purpose of funding local building projects in the School Building Project Fund and funding the vocational program in the Other Governmental Funds. The transfer from the EHA Part B Fund was for indirect cost transferred to the General Fund.

(4) Restricted Assets

The restricted assets represent the cash balance of debt service funds whose balances are legally restricted and may not be used for purposes that support the district's programs.

(5) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Balance 6-30-2008
Non-depreciable capital assets:				
Land	$ 800,495			$ 800,495
Construction in progress	$ 0	$ 700,272		$ 700,272
Total non-depreciable capital assets	$ 800,495	$ 700,272	$ 0	$ 1,500,767
Depreciable capital assets:				
Buildings	$ 55,483,678	$ 242,291	$ (176,030)	$ 55,549,939
Building improvements	$ 859,914	$ 230,169		$ 1,090,083
Improvements other than buildings	$ 603,127		$ (33,950)	$ 569,177
Mobile equipment	$ 5,684,766	$ 784,045	$ (30,585)	$ 6,438,226
Furniture and equipment	$ 1,215,226	$ 62,027	$ (33,257)	$ 1,243,996
Total depreciable capital assets	$ 63,846,711	$ 1,318,532	$ (273,822)	$ 64,891,421
Less accumulated depreciation for:				
Buildings	$ 12,369,525	$ 1,040,017	$ (102,098)	$ 13,307,444
Building improvements	$ 222,664	$ 43,603		$ 266,267
Improvements other than buildings	$ 281,530	$ 16,442	$ (27,160)	$ 270,812

	Balance 7-1-2007	Additions	Retirements	Balance 6-30-2008
Mobile equipment	$ 3,404,234	$ 427,575	$ (22,965)	$ 3,808,844
Furniture and equipment	$ 730,287	$ 141,745	$ (25,288)	$ 846,744
Total depreciation	$ 17,008,240	$ 1,669,382	$ (177,511)	$ 18,500,111
Total depreciable capital assets, net	$ 46,838,471	$ (350,850)	$ (96,311)	$ 46,391,310
Governmental activities capital assets, net	$ 47,638,966	$ 349,422	$ (96,311)	$ 47,892,077

Depreciation expense was charged to the following governmental functions:

Governmental activities:	Amount
Instruction	$ 958,457
Support services	$ 484,495
Non-instructional	$ 226,430
Total Depreciation Expense	$ 1,669,382

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

Governmental Activities	Spent to June 30, 2008	Remaining Commitment
Saltillo High School Addition	$ 654,827	$ 296,914

Construction projects included in governmental activities are funded with local funds designated by the school board for such purposes.

(6) Long-term Liabilities.

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

		Balance 7-1-2007	Additions	Reductions	Balance 6-30-2008	Amounts due within one year
A.	General obligation bonds payable	$ 25,285,000		$ 1,350,000	$ 23,935,000	$ 1,595,000
B.	Three mill notes payable	$ 650,000	$ 650,000	$ 650,000	$ 650,000	$ 650,000
C.	Shortfall notes payable	$ 146,473		$ 74,934	$ 71,539	$ 71,539
D.	Compensated absences payable	$ 423,530	$ 37,640		$ 461,170	$ 36,894
	Total	$ 26,505,003	$ 687,640	$ 2,074,934	$ 25,117,709	$ 2,353,433

The school district has pledged future revenue to repay debt of the district.

The district has pledged state appropriations for EEF School Buildings and Buses in the amount of $203,281. The purpose of the pledge is to repay general obligations bonds of the district. The pledge will remain in effect through 2022. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 20% of the principal and interest requirements for the debt.

A. General obligation bonds payable.

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

Description	Interest Rate(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. General obligation refunding bonds, 1999	4.2 %	8-1-99	8-1-13	$ 8,018,000	$ 5,085,000
2. General obligations bonds, 2002	3.0 - 5.12 %	9-1-02	9-1-22	$ 19,650,000	$ 18,850,000
Total				$ 27,668,000	$ 23,935,000

Details of the district's June 30, 2008 general obligation bonded indebtedness are as follows:

1. Bond issue of 8-1-99.

Year Ending June 30	Principal	Interest	Total
2009	$ 755,000	$ 206,187	$ 961,187
2010	$ 785,000	$ 173,651	$ 958,651
2011	$ 825,000	$ 139,026	$ 964,026
2012	$ 865,000	$ 102,052	$ 967,052
2013	$ 905,000	$ 62,886	$ 967,886
2014	$ 950,000	$ 21,375	$ 971,375
Total	$ 5,085,000	$ 705,177	$ 5,790,177

This debt will be retired from the Bond 1999 Fund (Debt Service Fund).

2. Bond issue of 9-1-02.

Year Ending June 30	Principal	Interest	Total
2009	$ 840,000	$ 785,018	$ 1,625,018
2010	$ 890,000	$ 755,793	$ 1,645,793
2011	$ 935,000	$ 723,271	$ 1,658,271
2012	$ 990,000	$ 687,762	$ 1,677,762
2013	$ 1,040,000	$ 642,200	$ 1,682,200
2014 – 2018	$ 6,135,000	$ 2,422,775	$ 8,557,775
2019 – 2023	$ 8,020,000	$ 939,709	$ 8,959,709
Total	$ 18,850,000	$ 6,956,528	$ 25,806,528

The General Obligation Bonds, 2002 were sold with a variable interest rate. There are no terms by which the interest rates change other than the timelines based on the sale of the bonds. This debt will be retired from the Bond 2002 Fund (Debt Service Fund).

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2009	$ 1,595,000	$ 991,205	$ 2,586,205
2010	$ 1,675,000	$ 929,444	$ 2,604,444
2011	$ 1,760,000	$ 862,297	$ 2,622,297
2012	$ 1,855,000	$ 789,814	$ 2,644,814
2013	$ 1,945,000	$ 705,086	$ 2,650,086
2014 – 2018	$ 7,085,000	$ 2,444,150	$ 9,529,150
2019 – 2023	$ 8,020,000	$ 939,709	$ 8,959,709
Total	$ 23,935,000	$ 7,661,705	$ 31,596,705

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). 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 Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 10.5% of property assessments as of October 1, 2007.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three Mill Notes, 2007	3.87 %	9-5-07	8-1-08	$ 650,000	$ 650,000

Details of the district's June 30, three mill notes payable are as follows:

Three mill notes payable issued 9-5-07.

Year Ending June 30	Principal	Interest	Total
2009	$ 650,000	$ 23,129	$ 673,129

This debt will be retired from the Note and Interest Fund (Debt Service Fund).

C. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall Notes, 2005	4.65 %	9-13-05	9-13-08	$ 214,823	$ 71,539

Details of the district's June 30, shortfall notes payable are as follows:

Shortfall notes payable issued 9-13-05.

Year Ending June 30	Principal	Interest	Total
2009	$ 71,539	$ 3,542	$ 75,081

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

D. 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.

(7) Other Commitments.

Commitments under construction contracts are described in Note 5.

(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 employer's 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 $3,482,696, $3,149,964 and $2,627,236, respectively, which equaled the required contributions for each year.

(9) Risk Management.

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

(10) Vocational School Consortium.

The school district entered into two Vocational Education Agreements. One is dated August 14, 1990 creating the Lee/Tupelo Vocational Technical Education Center and the other is dated February 14, 2000 creating the Lee/Okolona Vocational Program. These consortiums were created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972) and were approved by the Mississippi Department of Education. The Lee/Tupelo Vocational Technical Education Center includes the Lee County School District and the Tupelo School District. The Lee/Okolona Vocational Program includes the Lee County School District and the Okolona School District.

Section 37-13-92(6), Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement for the construction or operation of a regional vocational education center. The agreements designate the fiscal agent and provide the method of financing the operation for the centers, the manner in which the centers are to be controlled and staffed and sets detail procedures for student admission and the transportation services for those students.

The Tupelo School District has been designated as the fiscal agent for the Lee/Tupelo Vocational Technical Education Center and the operations of the center are included in its financial statements. The Okolona School District has been designated as the fiscal agent for the Lee/Okolona Vocational Program and the operations of the program are included in its financial statements.

(11) Other Disclosures - Long Term Deferred Charge.

Upon the issuance of the General Obligation Bonds, Series 2002, the district incurred bond issue cost of $482,600. In the governmental fund financial statements this amount was reported as expenditures for the period in which the cost was incurred. However, this transaction is reported as a long-term deferred charge on the Statement of Net Assets and will be amortized over the life of the bonds using the straight line method at an annual cost of $24,130. The unamortized balance was $337,820 at fiscal year end.

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REQUIRED SUPPLEMENTARY INFORMATION

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Lee County School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 11,465,100	$ 12,154,081	$ 12,154,081	$ 688,981	$ -
Intermediate sources	$ -	$ 4,062	$ -	$ 4,062	$ (4,062)
State sources	$ 31,949,797	$ 32,255,040	$ 32,259,102	$ 305,243	$ 4,062
Federal sources	$ 85,000	$ 219,294	$ 326,061	$ 134,294	$ 106,767
Total Revenues	$ 43,499,897	$ 44,632,477	$ 44,739,244	$ 1,132,580	$ 106,767
Expenditures					
Instruction	$ 25,648,234	$ 26,347,371	$ 26,347,371	$ (699,137)	$ -
Support services	$ 15,809,215	$ 16,588,660	$ 16,350,104	$ (779,445)	$ 238,556
Facilities acquisition and construction	$ 105,000	$ 118,466	$ 463,789	$ (13,466)	$ (345,323)
Total Expenditures	$ 41,562,449	$ 43,054,497	$ 43,161,264	$ (1,492,048)	$ (106,767)
Excess (Deficiency) of Revenues Over Expenditures	$ 1,937,448	$ 1,577,980	$ 1,577,980	$ (359,468)	$ -
Other Financing Sources (Uses)					
Proceeds of loans	$ -	$ 674,550	$ 650,000	$ 674,550	$ (24,550)
Insurance loss recoveries	$ -	$ -	$ 24,550	$ -	$ 24,550
Operating transfers in	$ 3,340,915	$ 3,212,354	$ 15,643	$ (128,561)	$ (3,196,711)
Operating transfers out	$ (5,352,122)	$ (5,394,194)	$ (2,197,483)	$ (42,072)	$ 3,196,711
Total Other Financing Sources (Uses)	$ (2,011,207)	$ (1,507,290)	$ (1,507,290)	$ 503,917	$ -
Net Change in Fund Balances	$ (73,759)	$ 70,690	$ 70,690	$ 144,449	$ -
Fund Balances					
July 1, 2007	$ 6,910,000	$ 6,932,807	$ 6,932,807	$ 22,807	$ -
June 30, 2008	$ 6,836,241	$ 7,003,497	$ 7,003,497	$ 167,256	$ -

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

Lee County School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - EHA Part B Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ 1,680,053	$ 1,281,712	$ 1,281,712	$ (398,341)	$ -
Total Revenues	$ 1,680,053	$ 1,281,712	$ 1,281,712	$ (398,341)	$ -
Expenditures					
Instruction	$ 1,101,990	$ 818,318	$ 818,318	$ 283,672	$ -
Support services	$ 578,063	$ 447,751	$ 447,751	$ 130,312	$ -
Total Expenditures	$ 1,680,053	$ 1,266,069	$ 1,266,069	$ 413,984	$ -
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ 15 643	$ 15,643	$ (15,643)	$ -
Other Financing Sources (Uses)					
Operating transfers out	$ -	$ -	$ (15,643)	$ -	$ (15,643)
Other financing uses	$ -	$ (15,643)	$ -	$ 15,643	$ 15,643
Total Other Financing Sources (Uses)	$ -	$ (15,643)	$ (15,643)	$ 15,643	$ -
Net Change in Fund Balances	$ -	$ -	$ -	$ -	$ -
Fund Balances					
July 1, 2007	$ -	$ -	$ -	$ -	$ -
June 30, 2008	$ -	$ -	$ -	$ -	$ -

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

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15 following the end of the fiscal year. A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States.

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SUPPLEMENTARY INFORMATION

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Lee County 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 No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 948,296
National school lunch program	10.555	$ 2,457,070
Total child nutrition cluster		$ 3,405,366
Total U.S. Department of Agriculture		$ 3,405,366
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	$ 112,092
Total Federal Communications Commission		$ 112,092
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	$ 1,276,071
Career and technical education – basic grants to states	84.048	$ 63,618
Safe and drug-free schools and communities - state grants	84.186	$ 24,060
State grants for innovative programs	84.298	$ 14,393
Education technology - state grants	84.318	$ 12,459
Rural education	84.358	$ 203,338
Improving teacher quality – state grants	84.367	$ 389,029
Grants for state assessments and related activities	84.369	$ 37,269
Total		$ 2,020,237
Special education cluster:		
Special education - grants to states	84.027	$ 1,317,308
Special education - preschool grants	84.173	$ 62,936
Total		$ 1,380,244
Total passed-through Mississippi Department of Education		$ 3,400,481
Total U.S. Department of Education		$ 3,400,481
Total for All Federal Awards		$ 6,917,939

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
5. (If applicable, indicate by program the amount of funds transferred between ESEA programs and/or combined in a school wide program.)

Lee County School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administrative	School Administration	Other
Salaries and fringe benefits	$ 39,733,297	$ 30,697,922	$ 1,492,448	$ 3,276,342	$ 4,266,585
Other	$ 15,726,621	$ 3,595,331	$ 353,537	$ 57,465	$ 11,720,288
Total	$ 55,459,918	$ 34,293,253	$ 1,845,985	$ 3,333,807	$ 15,986,873
Total number of students	6,690				
Cost per student	$ 8,290	$ 5,126	$ 276	$ 498	$ 2,390

Notes to the schedule.

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

OTHER SUPPLEMENTARY INFORMATION

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Lee County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	$ 12,154,081	$ 11,636,700	$ 10,999,797	$ 10,638,263
State sources	$ 32,259,102	$ 28,717,429	$ 26,272,407	$ 23,541,764
Federal sources	$ 326,061	$ 193,234	$ 364,652	$ 179,366
Total Revenues	$ 44,739,244	$ 40,547,363	$ 37,636,856	$ 34,359,393
Expenditures				
Instruction	$ 26,347,371	$ 24,794,980	$ 23,570,080	$ 21,756,106
Support services	$ 16,350,104	$ 14,339,056	$ 14,187,123	$ 12,316,068
Noninstructional services	$ -	$ 9,169	$ 1,450	$ 1,329
Facilities acquisition and construction	$ 463,789	$ 656,282	$ 3,875	$ 18,652
Total Expenditures	$ 43,161,264	$ 39,799,487	$ 37,762,528	$ 34,092,155
Excess (Deficiency) of Revenues Over Expenditures	$ 1,577,980	$ 747,876	$ (125,672)	$ 267,238
Other Financing Sources (Uses)				
Proceeds of loans	$ 650,000	$ 650,000	$ 739,823	$ 509,000
Insurances loss recoveries	$ 24,550	$ -	$ 53,527	$ 41,239
Sale of transportation equipment	$ -	$ -	$ 6,226	$ 19,381
Sale of other property	$ -	$ -	$ -	$ 13,556
Operating transfers in	$ 15,643	$ 15,643	$ 13,126	$ 21,743
Other financing sources	$ -	$ 13,331	$ 10,456	$ -
Operating transfers out	$ (2,197,483)	$ (1,551,042)	$ (774,317)	$ (750,000)
Total Other Financing Sources (Uses)	$ (1,507,290)	$ (872,068)	$ 48,841	$ (145,081)
Net Change in Fund Balances	$ 70,690	$ (124,192)	$ (76,831)	$ 122,157
Fund Balances				
July 1	$ 6,932,807	$ 7,056,999	$ 7,133,830	$ 7,011,673
June 30	$ 7,003,497	$ 6,932,807	$ 7,056,999	$ 7,133,830

* Source - prior year audit reports.

Lee County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	$ 16,576,415	$ 15,582,107	$ 15,364,916	$ 14,693,739
State sources	$ 33,974,399	$ 29,883,864	$ 27,868,061	$ 25,113,313
Federal sources	$ 5,956,742	$ 5,829,601	$ 5,439,120	$ 4,543,808
Total Revenues	$ 56,507,556	$ 51,295,572	$ 48,672,097	$ 44,350,860
Expenditures				
Instruction	$ 30,226,185	$ 28,881,079	$ 27,135,080	$ 24,821,064
Support services	$ 17,673,167	$ 15,595,868	$ 15,480,403	$ 13,686,432
Noninstructional services	$ 3,229,080	$ 3,007,467	$ 3,020,778	$ 2,740,792
Facilities acquisition and construction	$ 1,172,732	$ 1,248,599	$ 1,636,139	$ 3,034,465
Debt service				
Principal	$ 2,074,934	$ 1,947,500	$ 1,837,156	$ 1,807,196
Interest	$ 1,077,295	$ 1,140,099	$ 1,181,799	$ 1,235,023
Other	$ 6,525	$ 6,539	$ 6,575	$ 6,970
Total Expenditures	$ 55,459,918	$ 51,827,151	$ 50,297,930	$ 47,331,942
Excess (Deficiency) of Revenues Over Expenditures	$ 1,047,638	$ (531,579)	$ (1,625,833)	$ (2,981,082)
Other Financing Sources (Uses)				
Proceeds of loans	$ 650,000	$ 650,000	$ 739,823	$ 509,000
Insurances loss recoveries	$ 24,550	$ -	$ 53,527	$ 41,239
Sale of transportation equipment	$ -	$ -	$ 6,226	$ 19,381
Sale of other property	$ -	$ -	$ 577	$ 13,556
Operating transfers in	$ 2,213,126	$ 1,566,685	$ 787,443	$ 946,743
Other financing sources	$ -	$ 15,077	$ 10,456	$ -
Operating transfers out	$ (2,213,126)	$ (1,566,685)	$ (787,443)	$ (946,743)
Total Other Financing Sources (Uses)	$ 674,550	$ 665,077	$ 810,609	$ 583,176
Net Change in Fund Balances	$ 1,722,188	$ 133,498	$ (815,224)	$ (2,397,906)
Fund Balances				
July 1	$ 12,190,296	$ 12,019,433	$ 12,842,141	$ 15,246,429
Increase (Decrease) in reserve for inventory	$ (156)	$ 37,365	$ (7,484)	$ (6,382)
June 30	$ 13,912,328	$ 12,190,296	$ 12,019,433	$ 12,842,141

* Source - prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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

Superintendent and School Board
Lee County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2008, which collectively comprise the district's basic financial statements and have issued my report thereon dated January 30, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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 school district'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 school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Finding 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06 and 2008-07.

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.

My 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

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agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The school district's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the school district's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the district's school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ridgeland, MS
January 30, 2009

CHARLES L. SHIVERS

Certified Public Accountant

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

Superintendent and School Board
Lee County School District

Compliance

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

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

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

Internal Control Over Compliance

The management of the Lee County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I 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 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.

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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.

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the district's school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ridgeland, MS
January 30, 2009

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Lee County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2008, which collectively comprise Lee County School District's basic financial statements and have issued my report thereon dated January 30, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(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."

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion. The district reported $0.00 of 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 my 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 or inappropriate functional level expenditure coding. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with these certain other state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations as required by the state legal compliance audit program prescribed by the Office of the Mississippi State Auditor and my audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Ridgeland, MS
January 30, 2009

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Lee County School District
Schedule of Findings and Questioned Costs
June 30, 3008

Section 1: Summary of Auditor's Results

Financial Statements:

1.	Type of auditor's report issued on the basic financial statements:	Unqualified
2.	Material noncompliance relating to the basic financial statements?	No
3.	Internal control over financial reporting:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that are not considered to be material weaknesses?	Yes

Federal Awards:

4.	Type of auditor's report issued on compliance for major federal programs:	Unqualified
5.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that are not considered to be material weaknesses?	None Reported
6.	Any audit finding(s) reported as required by section ___.510(a) of Circular A-133?	No
7.	Federal program identified as major program:	
	a. Child Nutrition Cluster CFDA #: 10.553 CFDA #: 10.555	
8.	The dollar threshold used to distinguish between type A and type B programs:	$300,000
9.	Auditee qualified as a low-risk auditee?	Yes
10	Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133?	No

Section 2: Financial Statement Findings

Significant deficiencies identified that are not considered to be material weaknesses.

Finding 2008-01

CONDITION: A high school bookkeeper performed all duties regarding the receipt of activity funds (receipted the funds, entered data into the accounting system, prepared the deposit slip and made the deposit).
CRITERIA: A well designed system of accounting controls for the receipt of activity funds would be such that no one individual performs all aspects of the transaction from beginning to end.
CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.
EFFECT OF CONDITION: This situation could result in errors occurring in receipt of activity fund transactions (posting, deposits, etc) with those errors not being prevented or detected in a timely manner.

RECOMMENDATION: It is recommended that the duties of receipting activity funds be segregated to the greatest extent possible such that no one individual performs all aspects of the transaction from beginning to end.

Finding 2008-02

CONDITION: The sale of goods (drinks, etc) at the school store lacks full accountability for the items sold.

CRITERIA: A well designed system of account controls would account for and reconcile the items purchased to the cash sales to the remaining inventory so that there would be full accountability for the items being sold.
CAUSE OF CONDITION: The condition is the result of an inadequately designed system.
EFFECT OF CONDITION: In the absence of full accountability of school store sales, there is less than full assurance that all revenues are being collected from the items purchased and subsequently sold.

RECOMMENDATION: It is recommended that purchased items be periodically accounted for and reconciled to cash sales and remaining inventory.

Finding 2008-03

CONDITION: There is a lack of segregation of duties with activity fund expenditures. The school principal approves the purchase and ultimately approves paying for the purchase (signs the check).
CRITERIA: A well designed system of accounting controls for the disbursement of activity funds would be such that no one individual performs these incompatible duties.
CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.
EFFECT OF CONDITION: This situation could result in errors occurring in the disbursement of activity fund transactions and those errors not being prevented or detected in a timely manner.

RECOMMENDATION: It is recommended that the disbursement of activity funds be segregated to the greatest extent possible such that no one individual performs these incompatible duties.

Finding 2008-04

CONDITION: The accounts payable clerk prepares claims for payment and affixes the electronic signature to the checks.
CRITERIA: A well designed system of accounting controls would have someone other than the accounts payable clerk affixing the electronic signature to the checks.
CAUSE OF CONDITION: The cause of this condition is the result of an inadequately designed system.
EFFECT OF CONDITION: This condition could result in the payment of unauthorized claims.

RECOMMENDATION: It is recommended that the financial accounting software be modified so that someone other than the accounts payable clerk has rights and access to affixing the electronic signature to the checks.

Finding 2008-05

CONDITION: Blank checks were not properly secured.
CRITERIA: A well designed system of accounting controls would have blank checks stored in a secured (locked) location with access only available to limited personnel.
CAUSE OF CONDITION: The cause is the result of an inadequately designed system.
EFFECT OF CONDITION: This condition could result in unaccounted for checks or stolen checks with the possibility of intentional misuse.

RECOMMENDATION: It is recommended that blank checks be kept in a secure and locked location.

Finding 2008-06

CONDITION: The payroll clerk enters all data associated with the processing of payroll, including employee data, transaction coding and direct deposit information.
CRITERIA: A well designed system of accounting controls for payroll would segregate the duties of data entry. One person enters employee data, someone else enters transaction coding and another person enters direct deposit information.
CAUSE OF CONDITION: The cause is the result of an inadequately designed system.
EFFECT OF CONDITION: This condition could result in the payment of unauthorized payroll.

RECOMMENDATION: It is recommended that the financial accounting software be modified so that rights and access be segregated so that one person enters employee data, someone else enters transaction coding and another person enters direct deposit information.

Finding 2008-07

CONDITION: The fixed asset clerk does not monitor the inventory process performed by the local school asset clerks.
CRITERIA: A well designed system of accounting controls would have a monitoring process for inventories performed by the local school asset clerks.
CAUSE OF CONDITION: The cause is the result of an inadequately designed system.
EFFECT OF CONDITION: This condition could result in errors in accounting for fixed assets.

RECOMMENDATION: It is recommended that the fixed asset clerk monitor the inventories performed by the local school asset clerks by periodically spot-checking the inventories at a select number of schools.

Section 3: Federal Award Findings and Questioned Costs

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

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AUDITEE'S CORRECTIVE ACTION PLAN

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MIKE SCOTT, SUPERINTENDENT

KEITH STEELE, ASSISTANT SUPERINTENDENT

January 29, 2009

As required by Section 315© of OMB Circular A-133, the Lee County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008.

Finding 2008-01
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District acknowledges this is a weakness, but also acknowledges that with limited resources it may not be economically feasible to hire additional staff to segregate these duties. We will separate them to the greatest extent possible with existing staff.
Anticipated Completion date: February 28, 2009

Finding 2008-02
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District is in the process of implementing a school store inventory system at all of our schools.
Anticipated Completion date: July 1, 2009

Finding 2008-03
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District acknowledges this is a weakness, but also acknowledges that with limited resources it may not be economically feasible to hire additional staff to segregate these duties. We will separate them to the greatest extent possible with existing staff.
Anticipated Completion date: February 28, 2009

Finding 2008-04
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District has notified its accounting software vendor concerning this weakness and changes are being made to the software to separate the duties of posting accounts payable entries and affixing the signature to the check. The duty of affixing the signature to the check will be assigned to the accountant.

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Anticipated Completion date: February 28, 2009

Finding 2008-05
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District has always stored checks in a locked closet, but now has also purchased a locking cabinet that all blank checks and pay remittances will be kept locked in. Only the business manager for the school district will maintain a key to the cabinet. A check sign-out register will be maintained on all checks and pay remittances.
Anticipated Completion date: January 30, 2009

Finding 2008-06
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The Lee County School District has notified its accounting software vendor concerning this weakness and changes are being made to the software to separate the duties of entering new employees' names and social security numbers from all other payroll information. The duty of entering the name and social security number will be assigned to the personnel office. The payroll clerk will no longer have access to this field in the software.
Anticipated Completion date: February 28, 2009

Finding 2008-07
Corrective Action Plan:
Contact Person: Randy Thweatt
Description: The fixed asset clerk will start immediately doing monitoring of all fixed asset inventories. This will be done at least once a year at a select number of our schools.
Anticipated Completion date: January 30, 2009

Sincerely,

Mike Scott

Superintendent of Education