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LOWNDES COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008

LOWNDES COUNTY SCHOOL DISTRICT

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LOWNDES COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

T. E. LOTT & COMPANY, PA
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Lowndes County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lowndes 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,* we have also issued our report dated December 18, 2008, on our consideration of the Lowndes County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 4 through 12 and the Budgetary Comparison Schedules and corresponding notes on Pages 44 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds for the four years ended June 30, 2008, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

T. E. Scott & Company

Columbus, Mississippi
December 18, 2008

LOWNDES COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2008

The discussion and analysis of Lowndes 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 notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34—*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased $5,970,708, which represents a 15% increase from fiscal year 2007.
- General revenues account for $42,064,234 in revenue, or 86% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for $6,835,688 or 14% of total revenues.
- The District had $42,929,214 in expenses; only $6,835,688 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $42,064,234 were adequate to provide for these programs.
- Among major funds, the General Fund had $38,257,023 in revenues, $34,184,326 in expenditures and $2,223,024 in net other financing sources. The General Fund's fund balance increased $6,295,721 compared to the prior year due to insurance loss recoveries of $3,829,082 and additional local sources and state revenue. Insurance loss recoveries were for damages caused by the Caledonia storm in January 2008.
- Capital assets, net of accumulated depreciation, decreased by $947,166.
- Long-term debt decreased by $1,115,526 per amortization schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2008

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements can be found on Pages 14 - 16 of this report.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current expendable resources, as well as on balances of expendable 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.

Governmental Funds. (Continued)

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on Pages 18 and 20, respectively.

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

The basic governmental funds financial statements can be found on Pages 17 - 20 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements. The notes to the financial statements can be found on Pages 23 - 42 of this report.

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

The District adopts an annual operating budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund and Sixteenth Section Interest Fund. This required supplementary information can be found on Pages 43 - 45 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on Pages 46 - 48 of this report.

The Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds is on Page 51. The statements required by the Mississippi Department of Education, "Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund for the four years ended June 30, 2008, and Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds" are on Pages 52 and 53, respectively.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a governmental entity's financial position. In the case of the District, assets exceeded liabilities by $44,656,960 as of June 30, 2008.

By far the largest portion of the District's net assets (56%) is represented by its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

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

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

	FY 2008	FY 2007	Percentage Change
Current Assets	$ 23,024,888	$ 16,721,418	37.7%
Capital Assets, net	37,402,113	38,349,279	(2.5%)
Total Assets	**60,427,001**	**55,070,697**	**9.7%**
Current Liabilities	4,056,468	3,519,831	15.2%
Long-term Debt Outstanding	11,713,573	12,864,614	(8.9%)
Total Liabilities	**15,770,041**	**16,384,445**	**(3.7%)**
Net Assets:			
Invested in Capital Assets, net of related debt	24,887,225	24,718,865	.7%
Restricted	8,269,881	8,790,170	(5.9%)
Unrestricted	11,499,854	5,177,217	122.1%
Total Net Assets	**$ 44,656,960**	**$ 38,686,252**	**15.4%**

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

- The principal retirement of $1,115,526 of long-term debt.
- Cash increased due to in-lieu of tax revenue, local tax revenue and insurance loss recoveries.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2008 and 2007, were $48,899,922 and $42,032,432, respectively. The total costs of all programs and services were $42,929,214 and $39,233,999, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

	FY 2008	FY 2007	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 1,215,339	$ 1,356,408	(10.4%)
Operating grants and contributions	5,620,349	5,265,861	6.7%
General revenues:			
Property taxes	13,377,592	10,874,007	23.0%
Grants and contributions not restricted	24,195,852	22,293,683	8.5%
Other	4,490,790	2,242,473	100.3%
Total Revenues	**48,899,922**	**42,032,432**	**16.3%**
Expenses:			
Instruction	25,531,563	24,341,130	4.9%
Support services	14,641,186	12,055,394	21.4%
Non-instructional	2,085,547	2,093,460	(.4%)
Sixteenth Section	121,877	114,496	6.4%
Interest on long-term liabilities	549,041	629,519	(12.8%)
Total Expenses	**42,929,214**	**39,233,999**	**9.4%**
Increase in Net Assets	**$ 5,970,708**	**$ 2,798,433**	**113.4%**

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

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2008	2007	Change	2008	2007	Change
Instruction	$ 25,531,563	$ 24,341,130	4.9%	$ (22,195,353)	$ (20,933,248)	6.0%
Support services	14,641,186	12,055,394	21.4%	(13,111,060)	(10,798,728)	21.4%
Non-instructional	2,085,547	2,093,460	(.4%)	(169,061)	(143,860)	17.5%
Sixteenth Section	121,877	114,496	6.4%	(69,011)	(106,375)	(35.1%)
Interest on long-term liabilities	549,041	629,519	(12.8%)	(549,041)	(629,519)	(12.8%)
Total Expenses	**$ 42,929,214**	**$ 39,233,999**	**9.4%**	**$ (36,093,526)**	**$ (32,611,730)**	**10.7%**

Governmental activities. (Continued)

- Net cost of governmental activities of $36,093,526 and $32,611,730 was financed by general revenue, which is made up primarily of property taxes of $13,377,592 and $10,874,007 and state revenue of $23,764,582 and $21,905,721 for the years ended June 30, 2008 and 2007, respectively.

- Investment earnings accounted for $730,472 and $671,249 of the funding for the years ended June 30, 2008 and 2007, respectively.

- Sixteenth Section sources of $112,018 and $174,087 for the years ended June 30, 2008 and 2007, respectively, from oil, gas, and land leases.

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 expendable 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 $20,315,237, an increase of $5,778,997, due primarily to local tax revenue and insurance loss recoveries. $19,386,765 or 95.4% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $928,472 or 4.6% 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 $6,295,721. The decrease in fund balance in the Construction Funds was $769,779 and Sixteenth Section Interest Fund increase for the fiscal year was $144,970 (resulting from increase in value of new leases and timber sale primarily). The fund balance for Other Governmental Funds showed an increase of $108,085 due to an increase over all funds.

BUDGETARY HIGHLIGHTS

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

- GENERAL FUND: Budget amounts for revenue from state sources were increased for Mississippi Adequate Education for teacher raises and increases in state health insurance. Budget amounts for revenue from local sources increased due to tax collections exceeding the levy amount and increase in value of assessed value, and increase in-lieu of taxes.

The 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 $64,669,645, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents a decrease of $535,537 from the previous year. The significant deletions were storm damage assets but also had an increase of construction in progress balance for small projects and purchase of new buses. Total accumulated depreciation as of June 30, 2008, was $27,267,532 and total depreciation expense for the year was $1,524,899, resulting in total net assets of $37,402,113.

	Capital Assets, Net of Depreciation		Percentage
	FY 2008	FY 2007	Change
Land	$ 1,520,855	$ 1,200,990	26.6%
Construction in progress	508,468	277,458	83.3%
Buildings	28,866,822	30,052,891	(3.9%)
Building improvements	1,421,627	1,483,437	(4.2%)
Improvements other than buildings	2,755,825	3,067,315	(10.2%)
Mobile equipment	2,061,602	2,034,937	1.3%
Furniture and equipment	266,914	232,251	14.9%
Total	**$ 37,402,113**	**$ 38,349,279**	**(2.5%)**

Additional information concerning the District's capital assets can be found in Note 5 on Pages 34 and 35 of this report.

Debt Administration. At June 30, 2008, the District had $11,370,000 in general obligation bonds and other long-term debt outstanding, of which $1,169,888 is due within one year.

	Outstanding Debt		Percentage
	FY 2008	FY 2007	Change
General obligation bonds payable	$ 355,000	$ 455,000	(22.0%)
Three mill notes payable	7,355,000	7,725,000	(4.8%)
Obligations under capital leases	89,888	175,414	(48.8%)
Limited obligation bonds payable	4,715,000	5,275,000	(10.6%)
Compensated absences payable	343,573	349,726	(1.8%)
Total	**$ 12,858,461**	**$ 13,980,140**	**(8.0%)**

CURRENT ISSUES

The Lowndes 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 decreased 2.18 over thirteen years. Over the past five years, the assessed valuation of the School District has grown at a consistent rate of 3 to 4% per year. From tax year 2008 to tax year 2009, the assessed valuation grew 26% due to reappraisal of the property within the School District as well as the addition of $10,000,000 in new property. In addition, the District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The latest enrollment figures indicate that student enrollment in the District will remain at the same level as FY2008 for FY2009.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Lowndes County School District, 1053 Highway 45 South, Columbus, Mississippi 39701. The phone number is (662) 244-5005. Michael L. Halford is the current superintendent.

LOWNDES COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
ASSETS	
Cash and cash equivalents (Notes 1-F and 3-A)	$ 20,210,740
Investments (Notes 1-G and 3-B)	240,803
Due from other governments	1,433,762
Other receivables, net	19,419
Inventories (Note 1-J)	56,596
Restricted assets (Notes 1-G and 3-A)	1,063,568
Capital assets, not being depreciated (Notes 1-L and 5):	
Land	1,520,855
Construction in progress	508,468
Capital assets, net of accumulated depreciation (Notes 1-L and 5):	
Buildings	28,866,822
Building improvements	1,421,627
Improvements other than buildings	2,755,825
Mobile equipment	2,061,602
Furniture and equipment	266,914
Total Assets	$ 60,427,001
LIABILITIES	
Accounts payable and accrued liabilities	$ 2,671,841
Unearned revenue	37,810
Interest payable on long-term liabilities	201,929
Long-term liabilities, due within one year (Note 6):	
Capital related liabilities	1,169,888
Long-term liabilities, due beyond one year (Note 6):	
Capital related liabilities	11,345,000
Non-capital related liabilities	343,573
Total Liabilities	$ 15,770,041

(Continued)

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

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2008

(Continued)

	Governmental Activities
NET ASSETS	
Investment in capital assets, net of related debt	$ 24,887,225
Restricted net assets:	
Expendable:	
School-based activities	3,545,423
Debt service	1,346,520
Capital improvements	2,832,371
Forestry improvements	17,577
Unemployment benefits	105,000
Non-expendable:	
Sixteenth Section	422,990
Unrestricted	11,499,854
Total Net Assets	$ 44,656,960

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

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	$25,531,563	$ 667,949	$2,668,261	$ -	$ (22,195,353)
Support services	14,641,186	-	1,530,126	-	(13,111,060)
Non-instructional	2,085,547	494,524	1,421,962	-	(169,061)
Sixteenth Section	121,877	52,866	-	-	(69,011)
Interest on long-term liabilities	549,041	-	-	-	(549,041)
Total governmental activities	$42,929,214	$ 1,215,339	$ 5,620,349	$ -	(36,093,526)

General Revenues	
Taxes:	
General purpose levies	10,506,877
Debt purpose levies	48,352
In-lieu of taxes-industry plant	2,822,363
Unrestricted grants and contributions:	
State	23,764,582
Federal	431,270
Unrestricted investment earnings	730,472
Sixteenth Section sources	112,018
Other	3,648,300
Total General Revenues	42,064,234
Change in Net Assets	5,970,708
Net Assets - Beginning	38,686,252
Net Assets - Ending	$ 44,656,960

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

LOWNDES COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	Major Funds				
	General Fund	Local Construction Fund	Sixteenth Section Interest Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Notes 1-F and 3A)	$ 13,063,455	$ 2,846,849	$ 3,006,428	$ 1,716,998	$ 20,633,730
Investments (Notes 1-G and 3-B)	240,803	-	-	640,578	881,381
Due from other governments	739,764	-	-	693,998	1,433,762
Due from other funds (Note 4)	67,738	-	-	-	67,738
Other receivables, net	-	-	15,872	3,547	19,419
Inventories	-	-	-	56,596	56,596
Total Assets	$ 14,111,760	$ 2,846,849	$ 3,022,300	$ 3,111,717	$ 23,092,626
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 2,328,091	$ 14,478	$ 5,424	$ 323,848	$ 2,671,841
Due to other funds (Note 4)	-	-	-	67,738	67,738
Unearned revenue	-	-	-	37,810	37,810
Total Liabilities	2,328,091	14,478	5,424	429,396	2,777,389
Fund Balances:					
Reserved for:					
Capital projects	-	343,886	-	-	343,886
Inventory	-	-	-	56,596	56,596
Investments	-	-	-	422,990	422,990
Debt Service	-	-	-	1,548,449	1,548,449
Unemployment	-	-	-	105,000	105,000
Unreserved:					
Undesignated, reported in:					
General fund	11,783,669	-	-	-	11,783,669
Special Revenue funds	-	-	3,016,876	489,528	3,506,404
Capital Projects funds	-	2,488,485	-	-	2,488,485
Permanent funds	-	-	-	59,758	59,758
Total Fund Balances	11,783,669	2,832,371	3,016,876	2,682,321	20,315,237
Total Liabilities and and Fund Balances	$ 14,111,760	$ 2,846,849	$ 3,022,300	$ 3,111,717	$ 23,092,626

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

LOWNDES COUNTY SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

	Amount
Total Fund Balance - Governmental Funds	$ 20,315,237
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of $27,267,532. (Note 5)	37,402,113
2. Interest on long-term debt is recognized under modified accrual basis of accounting when due, rather than as it accrues.	(201,929)
3. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (Note 6)	(12,858,461)
Total Net Assets - Governmental Activities	$ 44,656,960

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

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Major Funds				
	General Fund	Local Construction Fund	Sixteenth Section Interest Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local sources	$ 14,675,536	$ -	$ 130,812	$ 909,685	$ 15,716,033
State sources	23,150,217	-	-	1,565,241	24,715,458
Federal sources	431,270	-	-	4,669,473	5,100,743
Sixteenth Section sources	-	-	134,240	30,643	164,883
Total Revenues	38,257,023	-	265,052	7,175,042	45,697,117
EXPENDITURES					
Instruction	21,554,464	-	-	3,096,723	24,651,187
Support services	12,627,416	221,925	-	1,879,124	14,728,465
Noninstructional services	2,446	-	-	2,012,216	2,014,662
Sixteenth Section	-	-	50,082	71,795	121,877
Facilities acquisition and construction	-	368,427	-	182,448	550,875
Debt service:					
Principal	-	-	-	1,115,526	1,115,526
Interest	-	-	-	562,475	562,475
Other	-	-	-	3,764	3,764
Total Expenditures	34,184,326	590,352	50,082	8,924,071	43,748,831
Excess (deficiency) of revenues over expenditures	4,072,697	(590,352)	214,970	(1,749,029)	1,948,286
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	3,829,082	-	-	-	3,829,082
Operating transfers in	3,437,636	-	-	2,235,312	5,672,948
Operating transfers out	(5,043,694)	(179,427)	(70,000)	(379,827)	(5,672,948)
Total Other Financing Sources (Uses)	2,223,024	(179,427)	(70,000)	1,855,485	3,829,082
Net Change in Fund Balances	6,295,721	(769,779)	144,970	106,456	5,777,368
Fund Balances:					
July 1, 2007	5,487,948	3,602,150	2,871,906	2,574,236	14,536,240
Increase in reserve for inventory	-	-	-	1,629	1,629
June 30, 2008	$ 11,783,669	$ 2,832,371	$ 3,016,876	$ 2,682,321	$ 20,315,237

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

LOWNDES COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITES FOR THE YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Governmental Funds	$ 5,777,368
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to $1,204,010, and the depreciation expense amounted to $1,524,899. (Note 5)	(320,889)
2. Increase (decrease) in reserve for inventory	1,629
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas, in governmental funds, proceeds from sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by proceeds from and loss on sales of capital assets.	
Proceeds from sales of capital assets	-
Loss on sales of capital assets	(626,277)
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	1,115,526
5. Compensated absences	6,153
6. Accrued interest on bonds	17,198
Change in Net Assets of Governmental Activities	$ 5,970,708

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

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents (Notes 1-F and 3-A)	$ 11,794	$ 19,441
Total Assets	$ 11,794	$ 19,441
LIABILITIES		
Due to student clubs	$ -	$ 19,441
Total Liabilities	$ -	$ 19,441
NET ASSETS		
Reserved for endowments	$ 11,794	
Total Net Assets	$ 11,794	

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

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Private-Purpose Trust Funds
ADDITIONS	
Interest on investments	$ 606
Total additions	606
DEDUCTIONS	
Scholarships awarded	650
Total deductions	650
Change in Net Assets	(44)
Net Assets	
July 1, 2007	11,838
June 30, 2008	$ 11,794

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Lowndes County School District (the 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 District's accounting policies are described below.

A. Financial Reporting Entity

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Government-wide Financial Statements (Continued):

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.

Local Construction Fund - This fund is used by the School District to account for financial resources to be used for acquisition or construction of major capital facilities.

Sixteenth Section Interest Fund - This fund is used by the School District to account for the revenues generated by Sixteenth Section land owned by the School District.

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems* as issued in 2003 by the U.S. Department of Education.

E. Encumbrances

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

F. Cash and Cash Equivalents

The District deposits excess funds in financial institutions selected by the School Board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with original maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments

The District can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest.

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

Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Receivables and payables

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

I. Due from Other Governments

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

J. Inventories

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

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

K. Restricted Assets

The nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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 method for all assets, except land and construction in progress. The following schedule details those thresholds.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. 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 6 for details.

O. Equity Classifications

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Equity Classifications (Continued)

Government-wide Financial Statements (Continued):

3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

Reserved for capital projects - An account that represents a portion of the fund balance that is legally segregated for contractual commitments to third parties.

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 investments - An account that represents a portion of the fund balance which indicates that Sixteenth Section Principal funds do not represent available spending resources.

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 debt service - An account that represents that portion of the 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Property Taxes

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

Q. Mississippi Adequate Education Program Revenues

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

NOTE 2 - CHANGES IN ACCOUNTING STANDARDS

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

NOTE 3 - CASH AND CASH EQUIVALENTS, AND INVESTMENTS

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

NOTE 3 - CASH AND CASH EQUIVALENTS, AND INVESTMENTS (Continued)

A. Cash and Cash Equivalents (Continued)

Deposits (Continued):

The carrying amount of the District's deposits with financial institutions reported in the governmental funds and fiduciary funds was $20,633,730 and $31,235, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - $20,210,740 and Restricted Assets - $1,063,568. The Restricted Assets represent the cash balance of Sixteenth Section Principal Fund (Permanent Fund - $422,990) and MAEP ($640,578) for debt, which is legally restricted and may not be used for purposes that support the District's programs. The bank balance was $21,683,610.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District does not have a formal 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 institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the District. As of June 30, 2008, none of the District's bank balance of $21,683,610 was exposed to custodial credit risk.

B. Investments

As of June 30, 2008, the District had the following investments:

Investment Type	Maturities (in years)	Fair Value	Rating
Hancock Horizon Treasury Securities Money Market Mutual Fund	Less than 1	$ 640,578	AAA
Trustmark National Bank Treasury Money Market	Less than 1	240,803	AAA
Total Investments		$ 881,381	

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

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

NOTE 3 - CASH AND CASH EQUIVALENTS, AND INVESTMENTS (Continued)

B. Investments (Continued)

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy that addresses custodial credit risk. The investments in the Hancock Horizon Treasury Money Markct Mutual Fund are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. Government, investments in mutual funds and external investment pools, and other pooled investments.

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

A. Due From / To Other Funds:

	Due From	Due To
Major Funds:		
General Fund	$ 67,738	$ -
Other Governmental Funds	-	67,738
Total	$ 67,738	$ 67,738

All amounts due from and due to werc to adjust dcficit cash balances.

B. Transfers In / Out

	Transfers In	Transfers Out
Major Funds:		
General Fund	$ 3,437,636	$ 5,043,694
Local Construction Fund	-	179,427
Sixteenth Section Intercst Fund	-	70,000
Other Governmental Funds	2,235,312	379,827
Total Funds	$ 5,672,948	$ 5,672,948

Transfers in and out were for year end closing entries, indirect cost, correction of posting crrors, payment obligations in debt service fund, and paying construction obligations under a capital project fund.

NOTE 5 - CAPITAL ASSETS

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

	Balance 7-1-07	Additions	Retire-ments	Completed Construc-tion	Adjust-ments	Balance 6-30-08
Non-depreciable capital assets						
Land	$ 1,200,990	$ 319,865	$ -	$ -	$ -	$ 1,520,855
Construction in progress	277,458	231,010	-	-	-	508,468
Total non-depreciable capital assets	1,478,448	550,875	-	-	-	2,029,323
Depreciable capital assets:						
Buildings	53,060,855	-	(1,312,774)	-	-	51,748,081
Building improvements	1,545,247	-	-	-	-	1,545,247
Improvements other than buildings	3,516,734	-	(217,508)	-	-	3,299,226
Mobile equipment	4,483,062	471,008	(148,849)	-	-	4,805,221
Furniture and equipment	1,120,836	182,127	(60,416)	-	-	1,242,547
Total depreciable capital assets	63,726,734	653,135	(1,739,547)	-	-	62,640,322
Less accumulated depreciation for:						
Buildings	23,007,964	811,747	(938,452)	-	-	22,881,259
Building improvements	61,810	61,810	-	-	-	123,620
Improvements other than buildings	449,419	128,783	(34,801)	-	-	543,401
Mobile equipment	2,448,125	377,934	(82,440)	-	-	2,743,619
Furniture and equipment	888,585	144,625	(57,577)	-	-	975,633
Total accumulated depreciation	26,855,903	1,524,899	(1,113,270)	-	-	27,267,532
Total depreciable capital assets, net	36,870,831	(871,764)	(626,277)	-	-	35,372,790
Governmental activities capital assets, net	$ 38,349,279	$ (320,889)	$ (626,277)	$ -	$ -	$ 37,402,113

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 1,036,844
Support services	416,351
Non-instructional	71,704
Total depreciation expense	$ 1,524,899

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

Adjustments:
Some heavy mobile equipment was transferred from furniture and equipment.

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

	Remaining Commitment	Required Future Financing
Caledonia Campus	$ 343,886	$ -

NOTE 6 - LONG-TERM LIABILITIES

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

		Balance 7-01-07	Additions	Reductions	Adjustments	Balance 6-30-08	Amounts Due Within One Year
A.	General obligation bonds payable	$ 455,000	$ -	$ 100,000	$ -	$ 355,000	$ 120,000
B.	Limited obligation bonds payable	5,275,000	-	560,000	-	4,715,000	585,000
C.	Three mill notes payable	7,725,000	-	370,000	-	7,355,000	375,000
D.	Obligation under energy efficiency lease	175,414	-	85,526	-	89,888	89,888
E.	Compensated absences payable	349,726	-	6,153	-	343,573	-
	Total	$ 13,980,140	$ -	$ 1,121,679	$ -	$ 12,858,461	$ 1,169,888

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, COP Refunding - Series 2001	3.3% - 4.3%	7/1/01	1/1/11	$ 455,000	$ 355,000

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

Year Ending June 30,	Principal	Interest	Total
2009	$ 120,000	$ 15,082	$ 135,082
2010	125,000	10,043	135,043
2011	110,000	4,730	114,730
Total	$ 355,000	$ 29,855	$ 384,855

NOTE 6 - LONG-TERM LIABILITIES (Continued)

A. General Obligation Bonds Payable (Continued)

The amount of bond indebtedness that can be incurred by the District is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such District, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to .2% of property assessments as of October 1, 2007. This debt will be retired from the debt service funds.

B. Limited Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds Series 1998	4.2% - 6.0%	5/1/98	8/1/14	$8,530,000	$ 4,715,000

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

Year Ending June 30	Principal	Interest	Total
2009	$ 585,000	$ 202,240	$ 787,240
2010	610,000	175,645	785,645
2011	640,000	147,200	787,200
2012	670,000	117,070	787,070
2013	705,000	85,445	790,445
2014 - 2018	1,505,000	70,035	1,575,035
Total	$ 4,715,000	$ 797,635	$ 5,512,635

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

NOTE 6 - LONG-TERM LIABILITIES (Continued)

C. Three Mill - Notes Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes payable	3.9% - 5.5%	09/01/01	09/01/11	$ 3,500,000	$ 1,425,000
Three mill notes payable	4.15%	12/15/05	09/01/21	6,000,000	5,930,000
				$ 9,500,000	$ 7,355,000

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

Year Ending June 30,	Principal	Interest	Total
2009	$ 375,000	$ 294,326	$ 669,326
2010	400,000	279,120	679,120
2011	405,000	263,304	668,304
2012	450,000	246,469	696,469
2013	535,000	226,486	761,486
2014 - 2022	5,190,000	944,125	6,134,125
Total	$ 7,355,000	$ 2,253,830	$ 9,608,830

This debt will be retired from the debt service fund.

D. Obligations Under Energy Efficiency Lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Energy Efficient Lease	4%	08/26/98	08/26/08	$ 725,960	$ 89,888

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

Year Ending June 30,	Principal	Interest	Total
2009	$ 89,888	$ 4,185	$ 94,473

NOTE 6 - LONG-TERM LIABILITIES (Continued)

D. Obligations Under Energy Efficiency Lease (Continued)

An energy efficiency lease agreement dated August 26, 1998, was executed by and between the District, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of $725,960 for the purchase of energy efficiency equipment, machinery, supplies, building modifications, and other energy saving items. Payments of the lessee shall be made from the debt service fund and are not to exceed ten (10) years.

The District entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the debt service funds.

E. Compensated Absences Payable

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

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan Description. The 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, Mississippi 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 District is required to contribute at an actuarially determined rate. The current rate is 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 District's contributions to PERS for the fiscal years ended June 30, 2008, 2007 and 2006, were $2,697,216, $2,409,094, and $2,246,719, respectively, which equaled the required contributions for each year.

NOTE 8 - OTHER COMMITMENTS

Commitments under construction contracts are described in Note 5.

Operating Leases:

The District has several operating leases for copying equipment. Lease expenditures for the year ended June 30, 2008, amounted to $48,127. Future lease payments for these leases are as follows:

Year Ending June 30,	Amount
2009	$ 46,553
2010	35,284
2011	32,541
2012	18,277
Total	$ 132,655

The District has a service agreement for an energy efficiency lease. Service expenditures for the year ended June 30, 2008, amounted to $47,735. Future service payments for the service agreement are as follows:

Year Ending June 30,	Amount
2009	$ 45,445

NOTE 9 - SIXTEENTH SECTION LANDS

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

Year Ending June 30	Amount
2009	$ 108,915
2010	106,532
2011	98,373
2012	92,470
2013	89,186
2014 - 2018	434,849
2019 - 2023	434,609
2024 - 2028	434,074
2029 - 2033	415,672
2034 - 2038	339,819
2039 - 2043	158,449
2044 - 2048	60,573
2049 - 2053	8,327
2054- 2058	8,156
2059 - 2063	7,991
2064 - 2068	6,676
2069 - 2073	3,475
Total	$ 2,808,146

NOTE 10 - RISK MANAGEMENT

The 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.

NOTE 11- PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's financial statements. On June 30, 2008, $435,000 of bonds outstanding were defeased.

LOWNDES COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

LOWNDES COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

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	$ 14,387,689	$ 14,691,759	$ 14,675,536	$ 304,070	$ (16,223)
State sources	23,504,922	23,150,217	23,150,217	(354,705)	-
Federal sources	441,549	431,270	431,270	(10,279)	-
Total Revenues	38,334,160	38,273,246	38,257,023	(60,914)	(16,223)
EXPENDITURES					
Instruction	22,472,483	21,554,464	21,554,464	918,019	-
Support services	11,835,958	12,392,546	12,627,416	(556,588)	(234,870)
Noninstructional services	6,589	2,446	2,446	4,143	-
Total Expenditures	34,315,030	33,949,456	34,184,326	365,574	(234,870)
Excess of Revenues Over Expenditures	4,019,130	4,323,790	4,072,697	304,660	(251,093)
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	-	3,829,082	3,829,082	3,829,082	-
Indirect costs	62,654	58,840	-	(3,814)	(58,840)
Operating transfers in	3,541,850	3,378,795	3,437,636	(163,055)	58,841
Operating transfers out	(6,822,813)	(5,043,694)	(5,043,694)	1,779,119	-
Other financing uses	-	(40,784)	-	(40,784)	40,784
Total Other Financing Sources (Uses)	(3,218,309)	2,182,239	2,223,024	5,400,548	40,785
Net Change in Fund Balance	800,821	6,506,029	6,295,721	5,705,208	(210,308)
Fund Balance:					
July 1, 2007, as originally prepared	5,864,906	5,424,223	5,487,948	(440,683)	63,725
Prior period adjustments	-	63,725	-	63,725	(63,725)
July 1, 2007, as restated	5,864,906	5,487,948	5,487,948	(376,958)	-
June 30, 2008	$ 6,665,727	$ 11,993,977	$ 11,783,669	$ 5,328,250	$ (210,308)

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

LOWNDES COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

SIXTEENTH SECTION INTEREST 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	$ 110,615	$ 130,812	$ 130,812	$ 20,197	$ -
Sixteenth Section sources	100,785	134,240	134,240	33,455	-
Total Revenues	211,400	265,052	265,052	53,652	-
EXPENDITURES					
Sixteenth Section sources	54,319	50,082	50,082	4,237	-
Excess of Revenues Over Expenditures	157,081	214,970	214,970	57,889	-
OTHER FINANCING SOURCES (USES)					
Operating transfers out	(70,000)	(70,000)	(70,000)	-	-
Net Change in Fund Balance	87,081	144,970	144,970	57,889	-
Fund Balance:					
July 1, 2007	2,871,906	2,871,906	2,871,906	-	-
June 30, 2008	$ 2,958,987	$ 3,016,876	$ 3,016,876	$ 57,889	$ -

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

LOWNDES COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA No.	Federal Expenditures
U. S. Department of Agriculture		
Passed-Through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 309,026
National school lunch program	10.555	1,104,519
Summer food source program for children	10.559	13,681
Total		1,427,226
Total U. S. Department of Agriculture		1,427,226
U. S. Department of Education		
Passed-Through Mississippi Department of Education:		
Title 1 - grants to local educational agencies	84.010	$ 1,433,160
Career and technical education - basic grants to states	84.048	61,358
Safe and drug-free schools and communities - state grants	84.186	31,544
Education for homeless children and youth	84.196	64,436
State grants for innovative program	84.298	11,493
Educational technology state grants	84.318	16,499
Rural education	84.358	149,440
Improving teacher quality state grants	84.367	262,182
Total		2,030,112
Special Education Cluster:		
Special education - grants to states	84.027	1,117,250
Special education - preschool grants	84.173	30,066
Total		1,147,316
Total Passed-Through Mississippi Department of Education		3,177,428
Total U. S. Department of Education		3,177,428

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA No.	Federal Expenditures
U. S. Department of Homeland Security		
Passed through Mississippi Emergency Management Agency		
Disaster Grants - Public Assistance	97.036	$ 31,422
Total U. S. Department of Homeland Security		31,422
U. S. Department of Defense		
Direct Program:		
Reserve Officers' Training Corps	12.XXX	$ 44,732
Total U. S. Department of Defense		44,732
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the Universal Service Fund	32.XXX	53,450
Total Federal Communications Commission		53,450
Total for all Federal Awards		$ 4,734,258

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 District.

LOWNDES COUNTY SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

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 Administra-tion	School Administra-tion	Other
Salaries and fringe benefits	$ 30,504,210	$ 24,407,429	$ 877,968	$ 2,163,638	$ 3,055,175
Other	13,244,621	4,125,747	349,373	25,727	8,743,774
	$ 43,748,831	$ 28,533,176	$ 1,227,341	$ 2,189,365	$ 11,798,949
Total number of students *	5,271				
Cost per student	$ 8,300	$ 5,413	$ 233	$ 415	$ 2,238

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

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

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

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

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

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

Note: Include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line.

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

FOR THE YEARS ENDED JUNE 30, 2008, 2007, 2006 AND 2005

	2008	Unaudited 2007 *	Unaudited 2006 *	Unaudited 2005 *
REVENUES				
Local sources	$ 14,675,536	$ 11,715,340	$ 11,416,490	$ 10,967,971
State sources	23,150,217	22,162,391	21,400,708	19,336,977
Federal sources	431,270	387,962	314,876	370,577
Total revenues	38,257,023	34,265,693	33,132,074	30,675,525
EXPENDITURES				
Instruction	21,554,464	20,057,094	18,822,962	17,514,743
Support services	12,627,416	11,046,658	10,105,558	9,357,019
Noninstructional services	2,446	3,321	1,874	5,109
Other	-	-	-	1,000
Total expenditures	34,184,326	31,107,073	28,930,394	26,877,871
Excess (deficiency) of revenues over expenditures	4,072,697	3,158,620	4,201,680	3,797,654
OTHER FINANCING SOURCES (USES)				
Insurance loss recoveries	3,829,082	93,126	6,442	-
Sale of transportation equipment	-	9,054	-	-
Sale of other property	-	-	3,200	10,050
Operating transfers in	3,437,636	3,243,646	3,216,645	2,917,396
Other financing sources	-	1,720	-	924
Operating transfers out	(5,043,694)	(7,740,765)	(5,034,907)	(6,636,227)
Other financing uses	-	(6,900)	(35,539)	(19,121)
Total other financing sources (uses)	2,223,024	(4,400,119)	(1,844,159)	(3,726,978)
Net change in fund balance	6,295,721	(1,241,499)	2,357,521	70,676
Fund Balances:				
Beginning of year	5,487,948	6,729,447	4,371,926	4,301,250
End of year	$ 11,783,669	$ 5,487,948	$ 6,729,447	$ 4,371,926

* Source - Prior year audit reports

LOWNDES COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

ALL GOVERNMENTAL FUNDS

FOR THE YEARS ENDED JUNE 30, 2008, 2007, 2006 AND 2005

	2008	Unaudited 2007 *	Unaudited 2006 *	Unaudited 2005 *
REVENUES				
Local sources	$ 15,716,033	$ 13,388,933	$ 12,788,637	$ 12,321,850
State sources	24,715,458	23,686,861	22,906,293	20,717,768
Federal sources	5,100,743	4,694,100	4,661,455	4,519,728
Sixteenth Section sources	164,883	182,208	1,244,298	239,487
Total revenues	45,697,117	41,952,102	41,600,683	37,798,833
EXPENDITURES				
Instruction	24,651,187	23,398,596	22,147,635	20,630,397
Support services	14,732,465	13,368,305	12,065,953	10,680,559
Noninstructional services	2,014,662	2,000,069	2,004,561	1,879,558
Sixteenth Section	121,877	114,496	86,880	43,542
Facilities acquisition and construction	546,875	4,100,008	3,591,077	704,268
Debt service:				
Principal	1,115,526	1,641,375	1,882,427	1,798,670
Interest	562,475	673,214	446,209	526,140
Other	3,764	3,920	113,233	3,351
Total expenditures	43,748,831	45,299,983	42,337,975	36,266,485
Excess (deficiency) of revenues over expenditures	1,948,286	(3,347,881)	(737,292)	1,532,348
OTHER FINANCING SOURCES (USES)				
Proceeds of loans	-	-	6,000,000	-
Insurance loss recoveries	3,829,082	93,126	6,442	-
Sale of transportation equipment	-	9,054		-
Sale of other property	-	-	3,200	10,050
Operating transfers in	5,672,948	10,703,864	6,292,993	7,389,903
Other financing sources	-	1,720	-	924
Operating transfers out	(5,672,948)	(10,703,864)	(6,292,993)	(7,389,903)
Other financing uses	-	(6,900)	(35,659)	(20,175)
Total other financing sources (uses)	3,829,082	97,000	5,973,983	(9,201)
Net change in fund balances	5,777,368	(3,250,881)	5,236,691	1,523,147
Fund Balances:				
Beginning of year	14,536,240	17,800,076	12,552,409	11,035,670
Increase (decrease) in reserve for inventory	1,629	(12,955)	10,976	(6,408)
End of year	$ 20,315,237	$14,536,240	$ 17,800,076	$ 12,552,409

* Source - Prior year audit reports

LOWNDES COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

T. E. LOTT & COMPANY, PA
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INDEPENDENT AUDITORS' 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
Lowndes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lowndes County School District as of and for the year ended June 30, 2008, which collectively comprise Lowndes County School District's basic financial statements, and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the District in a separate letter dated December 18, 2008.

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

J. E. Scott & Company

Columbus, Mississippi
December 18, 2008

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

Superintendent and School Board
Lowndes County School District

Compliance

We have audited the compliance of the Lowndes 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 auditors' 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 District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

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

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

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

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

T. E. Scott & Company

Columbus, Mississippi
December 18, 2008

LOWNDES COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Lowndes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lowndes County School District as of and for the year ended June 30, 2008, which collectively comprise Lowndes County School District's basic financial statements and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to ensure 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 our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The District reported no classroom supply funds carried over from previous years.

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

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

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

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

1. Finding:

The District had exceptions related to hiring, classifying, and reporting the certification of reemployment of PERS retirees. Documentation was not maintained for ascertaining prospective employees as PERS retirees before hiring. All employee files did not contain the document stating retiree status. Exceptions were also noted for an employee classified as a retiree in the payroll system who was not a retiree and for another employee who was a retiree but not classified as such. Several retirees were noted as having been paid in excess of allowed earnings. Exceptions were also noted for Forms 4B that were filed in excess of five days within employment.

Recommendation:

We recommend that policies and procedures for rehiring PERS retirees be reviewed and updated to comply with state statue.

Response:

A separate file will be maintained each year that will have all the Forms 4B. The Form 4B will be initialed and dated when it is mailed to PERS within five days of hire. Human resource department will check the records in Marathon to assure that the retirement status was entered into the system. then report printed by Accounting department. The Human Resource department will notify the supervisors of the retiree's limit of time for each retiree in their department. The Marathon system will be reviewed for all retiree status.

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

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

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

T. E. Scott & Company

Columbus, Mississippi
December 18, 2008

LOWNDES COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOWNDES COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

4. Type of auditors' report issued on compliance for major federal programs:	Unqualified
5. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified that are not considered to be material weaknesses?	No
6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?	No

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

Section 1: Summary of Auditors' Results (Continued)

7. Federal programs identified as major programs:

   Child Nutrition Cluster:
   CFDA #10.553
   CFDA #10.555
   CFDA #10.559

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

Section 2: Financial Statement Findings

Significant Deficiencies

The results of our tests did not disclose any finding related to financial statement significant deficiencies.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

Section 3: Federal Awards Findings and Questioned Costs

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