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**LEE COUNTY SCHOOL DISTRICT  
AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2011**

***M. M. WINKLER & ASSOCIATES, PLLC***  
*Certified Public Accountants*  
*Tupelo, Mississippi*

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**INDEPENDENT AUDITORS' REPORT**

Superintendent and School Board  
Lee 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 Lee County School District as of and for the year ended June 30, 2011, which collectively comprise the Lee County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lee County School District's management. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2011, 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 August 13, 2013 on our consideration of the Lee County School District's internal control over financial reporting and on 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.

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

- Continued -

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*M. M. Winkler & Associates, PLLC*

August 13, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

The discussion and analysis of Lee County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

**FINANCIAL HIGHLIGHTS**

- Total net assets for 2011 increased \$ 2,863,758 which represents 6.97% increase from fiscal year 2010. Total net assets for 2010 increased \$2,673,673, including a prior period adjustment of (\$244,039), which represents a 6.97% increase from fiscal year 2009.
- General revenues amounted to \$ 44,424,404 and \$ 45,417,151, or 74.88% and 76.88% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 14,904,486, or 25.12% of total revenues for 2011, and \$13,661,285, or 23.12 % of total revenues for 2010.
- The District had \$ 56,465,132 and \$ 56,160,724 in expenses for fiscal years 2011 and 2010; only \$ 14,904,486 for 2011 and \$ 13,661,285 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 44,424,404 for 2011 and \$45,417,151 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 41,874,482 in revenues and \$ 40,944,855 in expenditures for 2011, and \$ 42,320,681 in revenues and \$ 41,023,238 in expenditures in 2010. The General Fund's fund balance increased by \$ 1,312,442 from 2010 to 2011, and increased by \$ 1,328,252 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$ 1,554,111 for 2011 and decreased by \$ 567,493 for 2010. The increase for 2011 was due to the completion of an addition at Guntown Middle School and HVAC renovations at multiple schools. The decrease for 2010 was due to the disposal of seven school buses as well as the increase in accumulated depreciation.
- Long-term debt decreased by \$ 1,907,769 for 2011 and increased by \$ 879,683 for 2010. This decrease was due to the principal payments on long-term debt. The liability for compensated absences increased by \$ 5,425 for 2011 and decreased by \$ 14,356 for 2010.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**OVERVIEW OF THE FINANCIAL STATEMENTS – Continued**

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's Balance Sheet is reconciled to the Statement of Net Assets, and the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**OVERVIEW OF THE FINANCIAL STATEMENTS – Continued**

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund's Balance Sheet and in the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

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

**Reconciliation of Government-wide and Fund Financial Statements**

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental 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 each additional major special revenue fund.

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**OVERVIEW OF THE FINANCIAL STATEMENTS – Continued**

Also, included in the other information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 43,923,756 as of June 30, 2011.

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.

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

**Table 1  
Condensed Statement of Net Assets**

|  | <u>Governmental Activities</u> |                      | <u>Percentage<br/>Change</u> |
|--|--------------------------------|----------------------|------------------------------|
|  | <u>June 30,2011</u>            | <u>June 30, 2010</u> |                              |
| Current assets                                     | \$ 14,737,030                  | \$ 12,999,787        | 13.36%                       |
| Deferred charges -- issuance cost                  | 265,430                        | 289,560              | (8.33)%                      |
| Restricted assets                                  | 2,795,993                      | 5,042,195            | (44.55)%                     |
| Capital assets, net                                | 49,989,358                     | 48,435,247           | 3.21%                        |
| <b>Total Assets</b>                                | <b>\$ 67,787,811</b>           | <b>\$ 66,766,789</b> | <b>1.53%</b>                 |
| Current liabilities                                | \$ 703,791                     | \$ 638,758           | 10.18%                       |
| Long-term debt outstanding                         | 23,160,264                     | 25,068,033           | (7.61)%                      |
| <b>Total Liabilities</b>                           | <b>\$ 23,864,055</b>           | <b>\$ 25,706,791</b> | <b>(7.17)%</b>               |
| <b>Net assets:</b>                                 |                                |                      |                              |
| Invested in capital assets,<br>net of related debt | \$ 27,484,358                  | \$ 24,095,247        | 14.07%                       |
| Restricted   | 3,838,323                      | 5,821,461            | (34.07)%                     |
| Unrestricted                                       | 12,601,075                     | 11,143,290           | 13.08%                       |
| <b>Total net assets</b>                            | <b>\$ 43,923,756</b>           | <b>\$ 41,059,998</b> | <b>6.97%</b>                 |

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

- Increase in net capital assets in the amount of \$ 1,554,111.
- The principal retirement of \$ 2,513,194 of long-term debt.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$ 59,328,890 and \$ 59,078,436, respectively. The total cost of all programs and services was \$ 56,465,132 for 2011 and \$ 56,160,724 for 2010. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

**Table 2  
Changes in Net Assets**

|  | <u>Year Ended<br/>June 30, 2011</u> | <u>Year Ended<br/>June 30, 2010</u> | <u>Percentage<br/>Change</u> |
|--|-------------------------------------|-------------------------------------|------------------------------|
| <b>Revenues:</b>                                     |                                     |                                     |                              |
| Program revenues:                                    |                                     |                                     |                              |
| Charges for services                                 | \$ 2,193,822                        | \$ 2,060,036                        | 6.49 %                       |
| Operating grants and contributions                   | 12,710,664                          | 11,601,249                          | 9.56 %                       |
| General revenues:                                    |                                     |                                     |                              |
| Property taxes                                       | 14,432,641                          | 14,518,660                          | (0.59) %                     |
| Grants and contributions not restricted              | 29,545,723                          | 30,398,389                          | (2.80) %                     |
| Investment earnings                                  | 416,021                             | 408,394                             | 1.87 %                       |
| Other  | 30,019                              | 91,708                              | (67.27) %                    |
| <b>Total revenues</b>                                | <b>\$ 59,328,890</b>                | <b>\$ 59,078,436</b>                | <b>0.42 %</b>                |
| <b>Expenses:</b>                                     |                                     |                                     |                              |
| Instruction  | \$ 33,264,389                       | \$ 33,882,252                       | (1.82) %                     |
| Support services                                     | 18,747,020                          | 17,819,113                          | 5.21 %                       |
| Non-instructional                                    | 3,571,298                           | 3,518,797                           | 1.49 %                       |
| Interest and other expenses on long-term liabilities | 882,425                             | 940,562                             | (6.18) %                     |
| <b>Total expenses</b>                                | <b>\$ 56,465,132</b>                | <b>\$ 56,160,724</b>                | <b>0.54 %</b>                |
| <b>Increase (Decrease) in net assets</b>             | <b>\$ 2,863,758</b>                 | <b>\$ 2,917,712</b>                 | <b>(1.85) %</b>              |
| <b>Net Assets, July 1, as originally reported</b>    | <b>\$ 41,059,998</b>                | <b>\$ 38,386,325</b>                | <b>6.97 %</b>                |
| <b>Prior Period Adjustment</b>                       | <b>-0-</b>                          | <b>(244,039)</b>                    | <b>(100.00) %</b>            |
| <b>Net Assets, July 1, as restated</b>               | <b>\$ 41,059,998</b>                | <b>38,142,286</b>                   | <b>7.65 %</b>                |
| <b>Net Assets, June 30</b>                           | <b>\$ 43,923,756</b>                | <b>\$ 41,059,998</b>                | <b>6.97 %</b>                |

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**

**Table 3  
Net Cost of Governmental Activities**

|                                   | <b>Total Expenses</b> |                      | <b>Percentage<br/>Change</b> |
|-----------------------------------|-----------------------|----------------------|------------------------------|
|                                   | <b>2011</b>           | <b>2010</b>          |                              |
| Instruction                       | \$ 33,264,389         | \$ 33,882,252        | (1.82) %                     |
| Support services                  | 18,747,020            | 17,819,113           | 5.21 %                       |
| Non-instructional                 | 3,571,298             | 3,518,797            | 1.49 %                       |
| Interest on long-term liabilities | 882,425               | 940,562              | (6.18) %                     |
| <b>Total expenses</b>             | <b>\$ 56,465,132</b>  | <b>\$ 56,160,724</b> | <b>0.54 %</b>                |

|                                    | <b>Net (Expense) Revenue</b> |                        | <b>Percentage<br/>Change</b> |
|------------------------------------|------------------------------|------------------------|------------------------------|
|                                    | <b>2011</b>                  | <b>2010</b>            |                              |
| Instruction                        | \$ (24,463,270)              | \$ (25,514,384)        | (4.12) %                     |
| Support services                   | (16,265,375)                 | (16,096,815)           | 1.05 %                       |
| Non-instructional                  | 50,424                       | 52,322                 | (3.63) %                     |
| Interest on long-term liabilities  | (882,425)                    | (940,562)              | (6.18) %                     |
| <b>Total net (expense) revenue</b> | <b>\$ (41,560,646)</b>       | <b>\$ (42,499,439)</b> | <b>(2.21) %</b>              |

- Net cost of governmental activities (\$ 41,560,646 for 2011 and \$ 42,499,439 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$ 14,432,641 for 2011 and \$ 14,518,660 for 2010) and state and federal revenues (\$ 29,545,723 for 2011 and \$30,398,389 for 2010).
- Investment earnings amounted to \$ 416,021 for 2011 and \$ 408,394 for 2010.

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

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

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS - Continued**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 17,126,945, a decrease of \$ 610,254, which includes an increase in inventory of \$ 15,145. \$ 2,890,353 or 16.88% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$ 14,236,592 or 83.12% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 1,312,442. The fund balance of Other Governmental Funds showed a decrease in the amount of \$ 2,016,801, which includes an increase in reserve for inventory of \$15,145. The increase (decrease) in the fund balances for the other major funds were as follows:

| <u>Major Fund</u>       | <u>Increase (Decrease)</u> |
|-------------------------|----------------------------|
| Title I                 | no increase or decrease    |
| EEF Building and Buses  | \$ (2,600)                 |
| IDEA Part B             | no increase or decrease    |
| School Building Project | \$ 96,705                  |

**BUDGETARY HIGHLIGHTS**

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. The budget amendments for the 2011 school year reflected the State of Mississippi's reduction in funding to school districts.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2011, the District's total capital assets were \$ 72,910,017, including land, school buildings, building improvements, buses, improvements other than buildings, other school vehicles, furniture and equipment. This amount represents an increase of \$ 3,156,345 from 2010. Total accumulated depreciation as of June 30, 2011, was \$ 22,920,659, and total depreciation expense for the year was \$ 1,857,383, resulting in total net capital assets of \$ 49,989,358.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued**

**Table 4  
Capital Assets, Net of Accumulated Depreciation**

|                                   | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Percentage<br/>Change</u> |
|-----------------------------------|----------------------|----------------------|------------------------------|
| Land                              | \$ 2,015,275         | \$ 2,015,275         | 0.00 %                       |
| Construction in Progress          | 57,603               | 851,147              | (93.23) %                    |
| Buildings                         | 41,312,056           | 41,666,630           | (0.85) %                     |
| Building improvements             | 3,155,710            | 736,608              | 328.41 %                     |
| Improvements other than buildings | 249,038              | 265,480              | (6.19) %                     |
| Mobile equipment                  | 2,776,606            | 2,484,946            | 11.74 %                      |
| Furniture and equipment           | 423,070              | 415,161              | 1.91 %                       |
| <b>Total</b>                      | <b>\$ 49,989,358</b> | <b>\$ 48,435,247</b> | <b>3.21 %</b>                |

Additional information on the District's capital assets can be found in Note 5 included in this report.

**Debt Administration.** At June 30, 2011, the District had \$ 23,160,264 in outstanding long-term debt, of which \$2,536,299 is due within one year. The liability for compensated absences increased \$ 5,425 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

|   | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Percentage<br/>Change</u> |
|---|----------------------|----------------------|------------------------------|
| General obligation bonds payable            | \$ 18,905,000        | \$ 20,665,000        | (8.52) %                     |
| Three mill notes payable                    | 600,000              | 675,000              | (11.11) %                    |
| Shortfall notes payable                     | 165,845              | 244,039              | (32.04) %                    |
| Qualified school construction bonds payable | 3,000,000            | 3,000,000            | 0.00 %                       |
| Compensated absences payable                | 489,419              | 483,994              | 1.12 %                       |
| <b>Total</b>                                | <b>\$ 23,160,264</b> | <b>\$ 25,068,033</b> | <b>(7.61) %</b>              |

Additional information on the District's long-term debt can be found in Note 6 included in this report.

**CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The 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.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**CURRENT ISSUES - Continued**

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2010-2011 year decreased by 2.60% to 6,556 students.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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**FINANCIAL STATEMENTS**

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**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2011

Exhibit A

Governmental  
Activities

**ASSETS**

|  |                      |
|--|----------------------|
| Cash and cash equivalents                        | \$ 13,311,997        |
| Due from other governments                       | 1,269,258            |
| Inventories                                      | 155,775              |
| Deferred charges                                 | 265,430              |
| Restricted assets                                | 2,795,993            |
| Capital assets, non-depreciable:                 |                      |
| Land   | 2,015,275            |
| Construction in progress                         | 57,603               |
| Capital assets, net of accumulated depreciation: |                      |
| Buildings  | 41,312,056           |
| Building improvements                            | 3,155,710            |
| Improvements other than buildings                | 249,038              |
| Mobile equipment                                 | 2,776,606            |
| Furniture and equipment                          | <u>423,070</u>       |
| Total Assets                                     | <u>\$ 67,787,811</u> |

**LIABILITIES**

|  |                      |
|--|----------------------|
| Accounts payable and accrued liabilities   | \$ 365,516           |
| Unearned revenue                           | 40,562               |
| Interest payable on long-term liabilities  | 297,713              |
| Long-term liabilities, due within one year |                      |
| Capital related liabilities                | 2,455,000            |
| Non-capital related liabilities            | 81,299               |
| Long-term liabilities, due beyond one year |                      |
| Capital related liabilities                | 20,050,000           |
| Non-capital related liabilities            | <u>573,965</u>       |
| Total Liabilities                          | <u>\$ 23,864,055</u> |

**NET ASSETS**

|   |                             |
|---|-----------------------------|
| Invested in capital assets, net of related debt | \$ 27,484,358               |
| Restricted for:                                 |                             |
| Expendable:                                     |                             |
| School - based activities                       | 947,847                     |
| Debt service                                    | 2,691,546                   |
| Capital improvements                            | 32,273                      |
| Unemployment benefits                           | 166,657                     |
| Unrestricted                                    | <u>12,601,075</u>           |
| Total Net Assets                                | <u><u>\$ 43,923,756</u></u> |

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

**LEE COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011**

Exhibit B

| Functions / Programs                          | Expenses                    | Charges for<br>Services    | Operating<br>Grants and<br>Contribution | Governmental<br>Activities         | NET<br>(EXPENSE)<br>REVENUE<br>AND<br>CHANGES<br>IN NET<br>ASSETS |
|---|-----------------------------|----------------------------|---|------------------------------------|---|
| <b>Governmental Activities:</b>               |                             |                            |   |                                    |   |
| Instruction                                   | \$ 33,264,389               | \$ 1,043,028               | \$ 7,758,091                            | \$ ( 24,463,270 )                  |   |
| Support services                              | 18,747,020                  | 214,812                    | 2,266,833                               | ( 16,265,375 )                     |   |
| Non-instructional                             | 3,571,298                   | 935,982                    | 2,685,740                               | 50,424                             |   |
| Interest on long-term liabilities             | <u>882,425</u>              | <u>-0-</u>                 | <u>-0-</u>                              | <u>( 882,425 )</u>                 |   |
| <b>Total governmental activities</b>          | <b>\$ <u>56,465,132</u></b> | <b>\$ <u>2,193,822</u></b> | <b>\$ <u>12,710,664</u></b>             | <b>\$ ( <u>41,560,646</u> )</b>    |   |
| <b>General Revenues:</b>                      |                             |                            |   |                                    |   |
| <b>Taxes:</b>                                 |                             |                            |   |                                    |   |
| General purpose levies                        |                             |                            |   | \$ 11,342,413                      |   |
| Debt purpose levies                           |                             |                            |   | 3,090,228                          |   |
| <b>Unrestricted grants and contributions:</b> |                             |                            |   |                                    |   |
| State   |                             |                            |   | 29,293,954                         |   |
| Federal                                       |                             |                            |   | 251,769                            |   |
| Unrestricted investment earnings              |                             |                            |   | 416,021                            |   |
| Other   |                             |                            |   | <u>30,019</u>                      |   |
| <b>Total General Revenues</b>                 |                             |                            |   | <b>\$ <u>44,424,404</u></b>        |   |
| Change in Net Assets                          |                             |                            |   | <b>\$ <u>2,863,758</u></b>         |   |
| Net Assets - Beginning                        |                             |                            |   | <b>\$ <u>41,059,998</u></b>        |   |
| Net Assets - Ending                           |                             |                            |   | <b>\$ <u><u>43,923,756</u></u></b> |   |

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

**LEE COUNTY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2011**

**MAJOR FUNDS** Exhibit C

|  | General Fund | Title I Fund | EEF Building and Buses Fund | IDEA Part B Fund | School Building Project Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------|--------------|-----------------------------|------------------|------------------------------|--------------------------|--------------------------|
| <b>ASSETS</b>                            |              |              |                             |                  |                              |                          |                          |
| Cash and cash equivalents                | \$ 8,217,682 | \$ -0-       | \$ 197,093                  | \$ -0-           | \$ 3,887,657                 | \$ 3,795,558             | \$ 16,097,990            |
| Cash with fiscal agent                   | -0-          | -0-          | -0-                         | -0-              | -0-                          | 10,000                   | 10,000                   |
| Due from other governments               | 508,702      | 398,042      | 17,387                      | 171,102          | -0-                          | 174,025                  | 1,269,258                |
| Due from other funds                     | 623,033      | -0-          | -0-                         | -0-              | 52,064                       | 214,480                  | 889,577                  |
| Inventories                              | -0-          | -0-          | -0-                         | -0-              | -0-                          | 155,775                  | 155,775                  |
| Total Assets                             | \$ 9,349,417 | \$ 398,042   | \$ 214,480                  | \$ 171,102       | \$ 3,939,721                 | \$ 4,349,838             | \$ 18,122,600            |
| <b>LIABILITIES AND FUND BALANCES</b>     |              |              |                             |                  |                              |                          |                          |
| <b>Liabilities:</b>                      |              |              |                             |                  |                              |                          |                          |
| Accounts payable and accrued liabilities | \$ 298,229   | \$ 11,858    | \$ -0-                      | \$ 23,675        | \$ -0-                       | \$ 31,754                | \$ 365,516               |
| Due to other funds                       | -0-          | 386,184      | 214,480                     | 147,427          | -0-                          | 141,486                  | 889,577                  |
| Unearned revenue                         | -0-          | -0-          | -0-                         | -0-              | -0-                          | 40,562                   | 40,562                   |
| Total Liabilities                        | \$ 298,229   | \$ 398,042   | \$ 214,480                  | \$ 171,102       | \$ -0-                       | \$ 213,802               | \$ 1,295,655             |
| <b>Fund Balances:</b>                    |              |              |                             |                  |                              |                          |                          |
| <b>Nonspendable:</b>                     |              |              |                             |                  |                              |                          |                          |
| Inventory                                | \$ -0-       | \$ -0-       | \$ -0-                      | \$ -0-           | \$ -0-                       | \$ 155,775               | \$ 155,775               |
| <b>Restricted:</b>                       |              |              |                             |                  |                              |                          |                          |
| Debt service                             | -0-          | -0-          | -0-                         | -0-              | -0-                          | 2,989,259                | 2,989,259                |
| Unemployment benefits                    | -0-          | -0-          | -0-                         | -0-              | -0-                          | 166,657                  | 166,657                  |
| Child nutrition                          | -0-          | -0-          | -0-                         | -0-              | -0-                          | 792,072                  | 792,072                  |
| Ad Valorem tax escrow                    | 219,958      | -0-          | -0-                         | -0-              | -0-                          | -0-                      | 219,958                  |
| <b>Committed:</b>                        |              |              |                             |                  |                              |                          |                          |
| Capital improvements                     | -0-          | -0-          | -0-                         | -0-              | 3,939,721                    | 32,273                   | 3,971,994                |
| Other purposes                           | 40,175       | -0-          | -0-                         | -0-              | -0-                          | -0-                      | 40,175                   |
| <b>Assigned:</b>                         |              |              |                             |                  |                              |                          |                          |
| Cash flow purposes                       | 5,900,702    | -0-          | -0-                         | -0-              | -0-                          | -0-                      | 5,900,702                |
| Unassigned                               | 2,890,353    | -0-          | -0-                         | -0-              | -0-                          | -0-                      | 2,890,353                |
| Total Fund Balances                      | \$ 9,051,188 | \$ -0-       | \$ -0-                      | \$ -0-           | \$ 3,939,721                 | \$ 4,136,036             | \$ 17,126,945            |
| Total Liabilities and Fund Balances      | \$ 9,349,417 | \$ 398,042   | \$ 214,480                  | \$ 171,102       | \$ 3,939,721                 | \$ 4,349,838             | \$ 18,422,600            |

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

**LEE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**  
June 30, 2011

Exhibit C-1

|  | <u>Amount</u>               |
|--|-----------------------------|
| Total Fund Balance - Governmental Funds  | \$ 17,126,945               |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                             |
| 1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 22,920,659.   | 49,989,358                  |
| 2. Governmental funds recognize bond issuance cost as expenditures when bonds are issued, however, in the government-wide financial statements bond issuance cost are capitalized and amortized over the term of the respective bonds. | 265,430                     |
| 3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.  | ( 23,160,264 )              |
| 4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.   | ( <u>297,713</u> )          |
| Total Net Assets - Governmental Activities   | \$ <u><u>43,923,756</u></u> |

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

**LEE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2011

Exhibit D

**MAJOR FUNDS**

|   | General Fund  | Title I Fund | EEF Building and Buses Fund | IDEA Part B Fund | School Building Project Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------|--------------|-----------------------------|------------------|------------------------------|--------------------------|--------------------------|
| <b>REVENUES:</b>                                  |               |              |                             |                  |                              |                          |                          |
| Local sources                                     | \$ 12,720,682 | \$ -0-       | \$ 2,718                    | \$ -0-           | \$ 96,705                    | \$ 4,336,260             | \$ 17,156,365            |
| State sources                                     | 28,902,031    | -0-          | 209,162                     | -0-              | -0-                          | 1,493,185                | 30,604,378               |
| Federal sources                                   | 251,769       | 1,870,369    | -0-                         | 1,194,585        | -0-                          | 8,251,414                | 11,568,137               |
| Total Revenues                                    | \$ 41,874,482 | \$ 1,870,369 | \$ 211,880                  | \$ 1,194,585     | \$ 96,705                    | \$ 14,080,859            | \$ 59,328,880            |
| <b>EXPENDITURES:</b>                              |               |              |                             |                  |                              |                          |                          |
| Instruction                                       | \$ 24,525,215 | \$ 1,282,445 | \$ -0-                      | \$ 691,398       | \$ -0-                       | \$ 6,142,522             | \$ 32,641,580            |
| Support services                                  | 16,368,887    | 538,644      | -0-                         | 491,280          | -0-                          | 1,197,889                | 18,596,700               |
| Noninstructional services                         | -0-           | 37,373       | -0-                         | -0-              | -0-                          | 3,371,834                | 3,409,207                |
| Facilities acquisition and construction           | 50,753        | -0-          | -0-                         | -0-              | -0-                          | 2,446,201                | 2,496,954                |
| Debt service:                                     |               |              |                             |                  |                              |                          |                          |
| Principal   | -0-           | -0-          | -0-                         | -0-              | -0-                          | 2,513,194                | 2,513,194                |
| Interest  | -0-           | -0-          | -0-                         | -0-              | -0-                          | 908,931                  | 908,931                  |
| Other   | -0-           | -0-          | -0-                         | -0-              | -0-                          | 9,756                    | 9,756                    |
| Total Expenditures                                | \$ 40,944,855 | \$ 1,858,462 | \$ -0-                      | \$ 1,182,678     | \$ -0-                       | \$ 16,590,327            | \$ 60,576,322            |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 929,627    | \$ 11,907    | \$ 211,880                  | \$ 11,907        | \$ 96,705                    | \$ ( 2,509,468)          | \$ ( 1,247,442)          |
| <b>Other Financing Sources (Uses):</b>            |               |              |                             |                  |                              |                          |                          |
| Proceeds of three mill note                       | \$ 600,000    | \$ -0-       | \$ -0-                      | \$ -0-           | \$ -0-                       | \$ -0-                   | \$ 600,000               |
| Sale of other property                            | 20,508        | -0-          | -0-                         | -0-              | -0-                          | 1,525                    | 22,033                   |
| Operating transfers in                            | 23,822        | -0-          | -0-                         | -0-              | -0-                          | 476,005                  | 499,827                  |
| Other financing sources                           | 10            | -0-          | -0-                         | -0-              | -0-                          | -0-                      | 10                       |
| Operating transfers out                           | ( 261,525)    | ( 11,907)    | ( 214,480)                  | ( 11,907)        | -0-                          | ( 8)                     | ( 499,827)               |
| Total Other Financing Sources (Uses)              | \$ 382,815    | \$ ( 11,907) | \$ ( 214,480)               | \$ ( 11,907)     | \$ -0-                       | \$ 477,522               | \$ 622,043               |
| Net Change in Fund Balances                       | \$ 1,312,442  | \$ -0-       | \$ ( 2,600)                 | \$ -0-           | \$ 96,705                    | \$ ( 2,031,946)          | \$ ( 625,399)            |

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

**LEE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2011  
- Continued -

Exhibit D

|                |  | MAJOR FUNDS         |               |                             |                  |                              |                          |                          |  |
|----------------|--|---------------------|---------------|-----------------------------|------------------|------------------------------|--------------------------|--------------------------|--|
|                |  | General Fund        | Title I Funds | EEF Building and Buses Fund | IDEA Part B Fund | School Building Project Fund | Other Governmental Funds | Total Governmental Funds |  |
| Fund Balances: |  |                     |               |                             |                  |                              |                          |                          |  |
|                | July 1, 2010                                 | \$ 7,738,746        | \$ -0-        | \$ 2,600                    | \$ -0-           | \$ 3,843,016                 | \$ 6,152,837             | \$ 17,737,199            |  |
|                | Increase (Decrease) in reserve for inventory | -0-                 | -0-           | -0-                         | -0-              | -0-                          | 15,145                   | 15,145                   |  |
|                | June 30, 2011                                | <u>\$ 9,051,188</u> | <u>\$ -0-</u> | <u>\$ -0-</u>               | <u>\$ -0-</u>    | <u>\$ 3,939,721</u>          | <u>\$ 4,136,036</u>      | <u>\$ 17,126,945</u>     |  |

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

**LEE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2011

|  | <u>Exhibit D-1</u><br><u>Amount</u> |
|--|-------------------------------------|
| Net Change in Fund Balances - Governmental Funds   | \$ (625,399)                        |
| 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 \$ 3,438,465 and the depreciation expense amounted to \$ 1,857,383. | 1,581,082                           |
| 2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance is reported as long-term liabilities in the Statement of Net Assets.  | ( 600,000 )                         |
| 3. Governmental funds report the effect of issuance costs when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Assets.  | ( 24,130 )                          |
| 4. The repayment 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.  | 2,513,194                           |
| 5. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.  | 36,262                              |
| 6. The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds but is reported as a reduction of net capital assets on the Statement of Activities, along with any gain or loss  | ( 26,971 )                          |
| 7. An increase in the inventory reserve is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.  | 15,145                              |
| 8. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:   |                                     |
| Compensated absences   | <u>(5,425)</u>                      |
| Change in Net Assets of Governmental Activities  | \$ <u><u>2,863,758</u></u>          |

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

**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
June 30, 2011

Exhibit E

|  | <u>Agency<br/>Funds</u>    |
|--|----------------------------|
| <b>ASSETS</b>                            |                            |
| Cash and cash equivalents                | \$ <u>3,147,754</u>        |
| Total Assets                             | \$ <u><u>3,147,754</u></u> |
| <b>LIABILITIES</b>                       |                            |
| Accounts payable and accrued liabilities | 2,984,016                  |
| Due to student clubs                     | <u>163,738</u>             |
| Total Liabilities                        | \$ <u><u>3,147,754</u></u> |

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. BASIS OF PRESENTATION**

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

**B. FINANCIAL REPORTING ENTITY**

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

For financial reporting purposes, Lee County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set fourth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organizations governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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.

**LEE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

-Continued-

**NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continued**

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

*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.

*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.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

**General Fund** - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

**Title I Fund** - This is the school district's fund for accounting for the federal funding of the Title I program for the fiscal year.

**EEF Building and Buses Fund** - This is the school district's fund for accounting for the state education enhancement funds for the fiscal year.

**IDEA, Part B Fund** - This is the school district's fund for accounting for the federal funding of the IDEA, Part B program for the fiscal year.

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

**LEE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - Continued**

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

The District's fiduciary funds include the following:

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

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

**School Club Funds** - These funds are used to account for the transactions of student clubs.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUND TYPES**

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Capital Projects Funds** - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Debt Service Funds** - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**FIDUCIARY FUNDS**

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

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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 the liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - 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 taxes, 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 authorities.

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 inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi 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.

**LEE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

-Continued-

**NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - Continued**

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

**E. ENCUMBRANCES**

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

**F. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCES**

**1. Cash, Cash Equivalents and Investments**

**Cash and cash equivalents**

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

**Investments**

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

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

Investments for the district, are reported at fair market value.

**2. Receivables and Payables**

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - Continued**

**2. Receivables and Payables - Continued**

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

**3. Due From Other Governments**

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

**4. Inventories and Prepaid Items**

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

**5. Restricted Assets**

Certain resources set aside for repayment of debt and resources from the issuance of debt for the acquisition or construction of facilities are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes and debt instruments.

**6. Capital Assets**

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have an initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental activity column 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 table below.

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

Depreciation is calculated on the straight-line basis for all assets, except land.

**LEE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2011**

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - Continued**

**6. Capital Assets - Continued**

The following schedule details those thresholds.

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

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

**7. Compensated Absences**

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

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

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

In the government-wide 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.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - Continued**

**9. Fund Balances**

Fund balances for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

*Nonspendable fund balance* includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or properly held for resale unless that proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the approval from the board for the commitment of fund balances.

*Assigned fund balance* includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the board or by a designee to whom the governing body delegates the authority.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY - Continued**

**9. Fund Balances - Continued**

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

**NOTE 2. CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENT**

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

*Deposits.* The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 16,097,990 and \$ 3,147,754, respectively.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the District's bank balance of \$ 21,023,791 was exposed to custodial credit risk.

**Cash with Fiscal Agents**

The carrying amount of school district's cash with fiscal agents held by financial institution was \$10,000.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 3. INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The following is a summary of inter-fund transactions and balances:

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

| <u>Receivable Fund</u>       | <u>Payable Fund</u>    | <u>Amount</u>     |
|------------------------------|------------------------|-------------------|
| General fund                 | Title I fund           | \$ 386,184        |
|                              | IDEA Part B Fund       | 147,427           |
|                              | Other governmental     | 89,422            |
| School building project fund | Other governmental     | 52,064            |
| Other governmental funds     | EEF building and buses | <u>214,480</u>    |
| Total                        |                        | <u>\$ 889,577</u> |

The purposes of the interfund loans were to cover funds not received prior to year end.

**B. Inter-fund Transfers**

| <u>Transfers Out</u>        | <u>Transfers In</u>      | <u>Amount</u>     |
|-----------------------------|--------------------------|-------------------|
| General fund                | Other governmental funds | \$ 261,525        |
| EEF building and buses fund | Other governmental funds | 214,480           |
| Title I fund                | General fund             | 11,907            |
| IDEA Part B fund            | General fund             | 11,907            |
| Other governmental funds    | General fund             | <u>8</u>          |
| Total                       |                          | <u>\$ 499,827</u> |

The principal purpose of interfund transfers was to provide for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

**NOTE 4. RESTRICTED ASSETS**

The restricted assets represent the cash and cash with fiscal agent balances totaling \$2,795,993 of debt service funds and a capital project fund whose balances are legally restricted and may not be used except for their restricted purposes.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 5. CAPITAL ASSETS**

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

|   | Balance<br><u>7/1/2010</u> | Additions            | Retirements       | Capitalized<br>Construction | Balance<br><u>6/30/2011</u> |
|---|----------------------------|----------------------|-------------------|-----------------------------|-----------------------------|
| <b>Non-depreciable capital assets:</b>      |                            |                      |                   |                             |                             |
| Land  | \$ 2,015,275               | \$ -0-               | \$ -0-            | \$ -0-                      | \$ 2,015,275                |
| Construction in progress                    | <u>851,147</u>             | <u>2,496,198</u>     | <u>-0-</u>        | <u>(3,289,742)</u>          | <u>57,603</u>               |
| Total non-depreciable capital assets        | \$ <u>2,866,422</u>        | \$ <u>2,496,198</u>  | \$ <u>-0-</u>     | \$ <u>(3,289,742)</u>       | \$ <u>2,072,878</u>         |
| <b>Depreciable capital assets:</b>          |                            |                      |                   |                             |                             |
| Buildings                                   | \$ 57,116,784              | \$ -0-               | \$ -0-            | \$ 724,424                  | \$ 57,841,208               |
| Building improvements                       | 1,090,083                  | -0-                  | -0-               | 2,565,318                   | 3,655,401                   |
| Improvements other than buildings           | 569,177                    | -0-                  | -0-               | -0-                         | 569,177                     |
| Mobile equipment                            | 6,668,137                  | 777,833              | 223,706           | -0-                         | 7,222,264                   |
| Furniture and equipment                     | <u>1,443,069</u>           | <u>164,434</u>       | <u>58,414</u>     | <u>-0-</u>                  | <u>1,549,089</u>            |
| Total depreciable capital assets            | \$ <u>66,887,250</u>       | \$ <u>942,267</u>    | \$ <u>282,120</u> | \$ <u>3,289,742</u>         | \$ <u>70,837,139</u>        |
| <b>Less accumulated depreciation:</b>       |                            |                      |                   |                             |                             |
| Buildings                                   | \$ 15,450,154              | \$ 1,078,998         | \$ -0-            | \$ -0-                      | \$ 16,529,152               |
| Building improvements                       | 353,475                    | 146,216              | -0-               | -0-                         | 499,691                     |
| Improvements other than buildings           | 303,697                    | 16,442               | -0-               | -0-                         | 320,139                     |
| Mobile equipment                            | 4,183,191                  | 463,802              | 201,335           | -0-                         | 4,445,658                   |
| Furniture and equipment                     | <u>1,027,908</u>           | <u>151,925</u>       | <u>53,814</u>     | <u>-0-</u>                  | <u>1,126,019</u>            |
| Total accumulated depreciation              | \$ <u>21,318,425</u>       | \$ <u>1,857,383</u>  | \$ <u>255,149</u> | \$ <u>-0-</u>               | \$ <u>22,920,659</u>        |
| Total depreciable capital assets, net       | \$ <u>45,568,825</u>       | \$ <u>( 915,116)</u> | \$ <u>26,971</u>  | \$ <u>3,289,742</u>         | \$ <u>47,916,480</u>        |
| Governmental activities capital assets, net | \$ <u>48,435,247</u>       | \$ <u>1,581,082</u>  | \$ <u>26,971</u>  | \$ <u>-0-</u>               | \$ <u>49,989,358</u>        |

Depreciation expense was charged to the following governmental functions:

|                   | <u>Amount</u>       |
|-------------------|---------------------|
| Instruction       | \$ 1,145,359        |
| Support services  | 525,958             |
| Non-instructional | <u>186,066</u>      |
|                   | \$ <u>1,857,383</u> |

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 5. CAPITAL ASSETS - Continued**

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

Commitments under contracts as of June 30, 2011 are summarized as follows:

| <u>Governmental Activities:</u> | <u>Spent to<br/>June 30, 2011</u> | <u>Remaining<br/>Commitment</u> |
|---------------------------------|-----------------------------------|---------------------------------|
| Sewer System - Mooreville       | \$ 21,600                         | \$ 23,700                       |
| Gym Floor - Saltillo            | <u>36,003</u>                     | <u>18,002</u>                   |
| Total                           | <u>\$ 57,603</u>                  | <u>\$ 41,702</u>                |

The projects included in governmental activities are funded with the district's general fund.

**NOTE 6. LONG-TERM LIABILITIES**

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

|  | <u>Balance<br/>7/1/2010</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Balance<br/>6/30/2011</u> | <u>Amounts<br/>Duc Within<br/>One Year</u> |
|--|-----------------------------|-------------------|---------------------|------------------------------|--|
| A. General obligation<br>bonds payable               | \$ 20,665,000               | \$ -0-            | \$ 1,760,000        | \$ 18,905,000                | \$ 1,855,000                               |
| B. Three mill notes payable                          | 675,000                     | 600,000           | 675,000             | 600,000                      | 600,000                                    |
| C. Shortfall notes payable                           | 244,039                     | -0-               | 78,194              | 165,845                      | 81,299                                     |
| D. Qualified school<br>construction bonds<br>payable | 3,000,000                   | -0-               | -0-                 | 3,000,000                    | -0-  |
| E. Compensated absences<br>payable                   | <u>483,994</u>              | <u>5,425</u>      | <u>-0-</u>          | <u>489,419</u>               | <u>-0-</u>                                 |
| Total  | <u>\$ 25,068,033</u>        | <u>\$ 605,425</u> | <u>\$ 2,513,194</u> | <u>\$ 23,160,264</u>         | <u>\$ 2,536,299</u>                        |

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 6. LONG-TERM LIABILITIES - Continued**

The district has pledged state appropriations for EEF School Building and Buses in the amount of \$ 174,001. The purpose of the pledge is to repay general obligations bonds of the district. The pledge will remain in effect through fiscal year 2014.

The district has pledged state appropriations for EEF School Building and Buses, subject to any prior pledge of the EEF for the benefit of any obligation that is currently outstanding, in the amount of \$ 205,770. The purpose of the pledge is to repay the qualified school construction bonds of the district. The pledge will remain in effect through fiscal year 2025.

**A. General Obligation Bonds Payable**

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

| Description  | Interest Rate | Issue Date | Maturity Date | Amounts              |                      |
|--|---------------|------------|---------------|----------------------|----------------------|
|  |               |            |               | Issued               | Outstanding          |
| General obligation bonds,<br>Refunding Bonds Series 1999 | 4.20%         | 08-01-1999 | 08-01-2013    | \$ 8,015,000         | \$ 2,720,000         |
| General obligation bonds,<br>Series 2002                 | 4.25%-5.15%   | 09-01-2002 | 09-01-2022    | <u>19,650,000</u>    | <u>16,185,000</u>    |
| Total  |               |            |               | <u>\$ 27,665,000</u> | <u>\$ 18,905,000</u> |

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

General obligation bond refunding bond series of August 1, 1999:

| Year Ending<br>June 30 | Principal           | Interest          | Total               |
|------------------------|---------------------|-------------------|---------------------|
| 2012                   | \$ 865,000          | \$ 102,052        | \$ 967,052          |
| 2013                   | 905,000             | 62,886            | 967,886             |
| 2014                   | <u>950,000</u>      | <u>21,375</u>     | <u>971,375</u>      |
| Total                  | <u>\$ 2,720,000</u> | <u>\$ 186,313</u> | <u>\$ 2,906,313</u> |

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 6. LONG-TERM LIABILITIES - Continued**

**A. General Obligation Bonds Payable - Continued**

General obligation bond series issue of September 1, 2002

| Year Ending<br>June 30 | Principal            | Interest            | Total                |
|------------------------|----------------------|---------------------|----------------------|
| 2012                   | \$ 990,000           | \$ 687,762          | \$ 1,677,762         |
| 2013                   | 1,040,000            | 641,900             | 1,681,900            |
| 2014                   | 1,100,000            | 585,725             | 1,685,725            |
| 2015                   | 1,160,000            | 533,650             | 1,693,650            |
| 2016                   | 1,225,000            | 485,950             | 1,710,950            |
| 2017 - 2021            | 7,200,000            | 1,594,650           | 8,794,650            |
| 2022 - 2023            | <u>3,470,000</u>     | <u>161,513</u>      | <u>3,631,513</u>     |
| Total                  | <u>\$ 16,185,000</u> | <u>\$ 4,691,150</u> | <u>\$ 20,876,150</u> |

This debt will be retired from the Bond 2002 Fund (Debt Service Fund).

Total general obligation bond payments for all issues:

| Year Ending<br>June 30 | Principal            | Interest            | Total                |
|------------------------|----------------------|---------------------|----------------------|
| 2012                   | \$ 1,855,000         | \$ 789,814          | \$ 2,644,814         |
| 2013                   | 1,945,000            | 704,786             | 2,649,786            |
| 2014                   | 2,050,000            | 607,100             | 2,657,100            |
| 2015                   | 1,160,000            | 533,650             | 1,693,650            |
| 2016                   | 1,225,000            | 485,950             | 1,710,950            |
| 2017 - 2021            | 7,200,000            | 1,594,650           | 8,794,650            |
| 2022 - 2023            | <u>3,470,000</u>     | <u>161,513</u>      | <u>3,631,513</u>     |
| Total                  | <u>\$ 18,905,000</u> | <u>\$ 4,877,463</u> | <u>\$ 23,782,463</u> |

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 7.21% of property assessments as of October 1, 2010.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 6. LONG-TERM LIABILITIES - Continued**

**B. Three Mill Notes Payable**

Debt currently outstanding is as follows:

| <u>Description</u>     | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u>    |                    |
|------------------------|----------------------|-------------------|----------------------|-------------------|--------------------|
|                        |                      |                   |                      | <u>Issued</u>     | <u>Outstanding</u> |
| Three Mill Notes, 2010 | 1.39                 | 10-04-2010        | 10-01-2011           | \$ 600,000        | \$ 600,000         |
| Total                  |                      |                   |                      | \$ <u>600,000</u> | \$ <u>600,000</u>  |

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

Three mill notes payable issue of October 4, 2010

| <u>Year Ending June 30</u> | <u>Principal</u>  | <u>Interest</u> | <u>Total</u>      |
|----------------------------|-------------------|-----------------|-------------------|
| 2012                       | \$ 600,000        | \$ 8,340        | \$ 608,340        |
| Total                      | \$ <u>600,000</u> | \$ <u>8,340</u> | \$ <u>608,340</u> |

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

**C. Shortfall Notes Payable**

Debt currently outstanding is as follows:

| <u>Description</u>  | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u>    |                    |
|---------------------|----------------------|-------------------|----------------------|-------------------|--------------------|
|                     |                      |                   |                      | <u>Issued</u>     | <u>Outstanding</u> |
| Shortfall Loan 2009 | 3.25%                | 8-26-2009         | 8-25-2012            | \$ 244,039        | \$ 165,845         |
| Total               |                      |                   |                      | \$ <u>244,039</u> | \$ <u>165,845</u>  |

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 6. LONG-TERM LIABILITIES - Continued**

**C. Shortfall Notes Payable - Continued**

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

Shortfall notes payable issued

| <u>Year Ending<br/>June 30</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|--------------------------------|-------------------|------------------|-------------------|
| 2012                           | 81,299            | 6,642            | 87,941            |
| 2013                           | 84,546            | 3,395            | 87,941            |
| Total                          | \$ <u>165,845</u> | \$ <u>10,037</u> | \$ <u>175,882</u> |

This debt will be retired from the General Fund.

**D. Qualified School Construction Bonds Payable**

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

| <u>Description</u>            | <u>Interest<br/>Rate</u> | <u>Issue<br/>Date</u> | <u>Maturity<br/>Date</u> | <u>Amounts</u>      |                     |
|-------------------------------|--------------------------|-----------------------|--------------------------|---------------------|---------------------|
|                               |                          |                       |                          | <u>Issued</u>       | <u>Outstanding</u>  |
| Qualified School Construction |                          |                       |                          |                     |                     |
| Bond                          | 0.94%                    | 12/22/2009            | 9-15-2024                | \$ <u>3,000,000</u> | \$ <u>3,000,000</u> |
| Total                         |                          |                       |                          | \$ <u>3,000,000</u> | \$ <u>3,000,000</u> |

**E. Compensated Absences Payables**

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

**NOTE 7. OTHER COMMITMENTS**

Commitments under construction contracts are described in Note 5.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2011, 2010, and 2009 were \$ 3,779,006, \$ 3,746,865 and \$ 3,570,995, respectively, which equaled the required contributions for each year.

**NOTE 9. CONTINGENCIES**

**Federal Grants**

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

**Litigation**

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

**NOTE 10. RISK MANAGEMENT**

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 11. QUALIFIED SCHOOL CONSTRUCTION BONDS**

Section 1521 of the American Recover and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$ 10,000. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

| Year Ending<br>June 30 | Amount              |
|------------------------|---------------------|
| 2012                   | \$ 60,000           |
| 2013                   | 60,000              |
| 2014                   | 236,000             |
| 2015                   | 238,500             |
| 2,016                  | 238,500             |
| 2017 - 2021            | 1,197,000           |
| 2022 - 2025            | <u>960,000</u>      |
| Total                  | \$ <u>2,990,000</u> |

**NOTE 12. VOCATIONAL SCHOOL CONSORTIUM**

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

Section 37-31-73, Miss. Code. Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocation education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedurcs for student admission and transportation services for those students.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2011

-Continued-

**NOTE 12. VOCATIONAL SCHOOL CONSORTIUM - Continued**

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

**NOTE 13. SUBSEQUENT EVENTS**

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Lee County School District evaluated the activity of the district through August 13, 2013 (the date the financial statement were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

In September 2011, Lee County School District issued a Three Mill Note for \$700,000. The term of the Three Mill Note is for one year at a rate of 1.06%.

In October 2012, Lee County School District issued \$14,255,000 of General Obligation Refunding Bonds, Series 2012. The interest rate on these bonds range from 2.50% to 3.00%.

In December 2012, Lee County School District issued a Three Mill Note for \$450,00. The term of the Three Mill Note is for one year at a rate of 0.54%.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
For the Year Ended June 30, 2011

|   | Budgeted Amounts           |                            | Actual<br>(GAAP)<br>(Basis) | Variances                  |                      |
|---|----------------------------|----------------------------|-----------------------------|----------------------------|----------------------|
|   |                            |                            |                             | Positive (Negative)        |                      |
|   | Original                   | Final                      |                             | Original<br>to Final       | Final<br>to Actual   |
| <b>Revenues:</b>                                  |                            |                            |                             |                            |                      |
| Local sources                                     | \$ 12,497,746              | \$ 12,720,682              | \$ 12,720,682               | \$ 222,936                 | \$ -0-               |
| State sources                                     | 29,825,803                 | 28,902,031                 | 28,902,031                  | ( 923,772)                 | -0-                  |
| Federal sources                                   | 124,000                    | 251,769                    | 251,769                     | 127,769                    | -0-                  |
| Total Revenues                                    | \$ <u>42,447,549</u>       | \$ <u>41,874,482</u>       | \$ <u>41,874,482</u>        | \$ ( 573,067)              | \$ -0-               |
| <b>Expenditures:</b>                              |                            |                            |                             |                            |                      |
| Instruction                                       | \$ 26,363,149              | \$ 24,525,215              | \$ 24,525,215               | \$ 1,837,934               | \$ -0-               |
| Support services                                  | 15,860,514                 | 16,368,887                 | 16,368,887                  | ( 508,373)                 | -0-                  |
| Non-instructional services                        | 1,438                      | -0-                        | -0-                         | 1,438                      | -0-                  |
| Facilities acquisition and construction           | 10,500                     | 50,753                     | 50,753                      | ( 40,253)                  | -0-                  |
| Total Expenditures                                | \$ <u>42,235,601</u>       | \$ <u>40,944,855</u>       | \$ <u>40,944,855</u>        | \$ <u>1,290,746</u>        | \$ -0-               |
| Excess (Deficiency) of Revenues Over Expenditures | \$ <u>211,948</u>          | \$ <u>929,627</u>          | \$ <u>929,627</u>           | \$ <u>717,679</u>          | \$ -0-               |
| <b>Other Financing Sources (Uses):</b>            |                            |                            |                             |                            |                      |
| Proceeds of note                                  | \$ 558,825                 | \$ 600,000                 | \$ 600,000                  | \$ 41,175                  | \$ -0-               |
| Insurance loss recoveries                         | 10,000                     | -0-                        | -0-                         | ( 10,000)                  | -0-                  |
| Sale of other property                            | -0-                        | 20,508                     | 20,508                      | 20,508                     | -0-                  |
| Operating transfers in                            | 1,303,463                  | 23,822                     | 23,822                      | ( 1,279,641)               | -0-                  |
| Other financing uses                              | -0-                        | 10                         | 10                          | 10                         | -0-                  |
| Operating transfers out                           | ( 1,808,608)               | ( 261,525)                 | ( 261,525)                  | 1,547,083                  | -0-                  |
| Total Other Financing Sources (Uses)              | \$ <u>63,680</u>           | \$ <u>382,815</u>          | \$ <u>382,815</u>           | \$ <u>319,135</u>          | \$ -0-               |
| Net Change in Fund Balances                       | \$ 275,628                 | \$ 1,312,442               | \$ 1,312,442                | \$ 1,036,814               | \$ -0-               |
| <b>Fund Balances:</b>                             |                            |                            |                             |                            |                      |
| July 1, 2010                                      | <u>5,703,360</u>           | <u>7,738,746</u>           | <u>7,738,746</u>            | <u>2,035,386</u>           | <u>-0-</u>           |
| June 30, 2011                                     | \$ <u><u>5,978,988</u></u> | \$ <u><u>9,051,188</u></u> | \$ <u><u>9,051,188</u></u>  | \$ <u><u>3,072,200</u></u> | \$ <u><u>-0-</u></u> |

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND**  
For the Year Ended June 30, 2011

|   | Budgeted Amounts |              | Actual<br>(GAAP)<br>(Basis) | Variances            |                    |
|---|------------------|--------------|-----------------------------|----------------------|--------------------|
|   |                  |              |                             | Positive (Negative)  |                    |
|   | Original         | Final        |                             | Original<br>to Final | Final<br>to Actual |
| Revenues:   |                  |              |                             |                      |                    |
| Federal sources   | \$ 1,645,466     | \$ 1,870,369 | \$ 1,870,369                | \$ 224,903           | \$ -0-             |
| Total Revenues  | \$ 1,645,466     | \$ 1,870,369 | \$ 1,870,369                | \$ 224,903           | \$ -0-             |
| Expenditures:   |                  |              |                             |                      |                    |
| Instruction   | \$ 1,043,902     | \$ 1,282,445 | \$ 1,282,445                | \$( 238,543)         | \$ -0-             |
| Support services  | 489,260          | 538,644      | 538,644                     | ( 49,384)            | -0-                |
| Noninstructional services                               | 8,750            | 37,373       | 37,373                      | ( 28,623)            | -0-                |
| Total Expenditures                                      | \$ 1,541,912     | \$ 1,858,462 | \$ 1,858,462                | \$( 316,550)         | \$ -0-             |
| Excess (Deficiency) of<br>Revenues Over<br>Expenditures | \$ 103,554       | \$ 11,907    | \$ 11,907                   | \$( 91,647)          | \$ -0-             |
| Other Financing (Uses):                                 |                  |              |                             |                      |                    |
| Operating transfers out                                 | \$ -0-           | \$( 11,907)  | \$( 11,907)                 | \$( 11,907)          | \$ -0-             |
| Total Other Financing<br>(Uses)                         | \$ -0-           | \$( 11,907)  | \$( 11,907)                 | \$( 11,907)          | \$ -0-             |
| Net Change in Fund<br>Balances                          | \$ 103,554       | \$ -0-       | \$ -0-                      | \$( 103,554)         | \$ -0-             |
| Fund Balances:  |                  |              |                             |                      |                    |
| July 1, 2010  | -0-              | -0-          | -0-                         | -0-                  | -0-                |
| June 30, 2011   | \$ 103,554       | \$ -0-       | \$ -0-                      | \$( 103,554)         | \$ -0-             |

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE EEF BUILDING**  
**AND BUSES FUND**  
For the Year Ended June 30, 2011

|   | Budgeted Amounts      |                       | Actual<br>(GAAP)<br>(Basis) | Variances<br>Positive (Negative) |                      |
|---|-----------------------|-----------------------|-----------------------------|----------------------------------|----------------------|
|   | Original              | Final                 |                             | Original<br>to Final             | Final<br>to Actual   |
|   |                       |                       |                             |                                  |                      |
| <b>Revenues:</b>  |                       |                       |                             |                                  |                      |
| Local sources   | \$ -0-                | \$ 2,718              | \$ 2,718                    | \$ 2,718                         | \$ -0-               |
| State sources   | <u>211,646</u>        | <u>209,162</u>        | <u>209,162</u>              | <u>( 2,484)</u>                  | <u>-0-</u>           |
| Total Revenues  | \$ <u>211,646</u>     | \$ <u>211,880</u>     | \$ <u>211,880</u>           | <u>234</u>                       | <u>-0-</u>           |
| <b>Expenditures:</b>                                    |                       |                       |                             |                                  |                      |
| Support services  | \$ -0-                | \$ -0-                | \$ -0-                      | \$ -0-                           | \$ -0-               |
| Total Expenditures                                      | \$ <u>-0-</u>         | \$ <u>-0-</u>         | \$ <u>-0-</u>               | \$ <u>-0-</u>                    | \$ <u>-0-</u>        |
| Excess (Deficiency) of<br>Revenues Over<br>Expenditures | \$ <u>211,646</u>     | \$ <u>211,880</u>     | \$ <u>211,880</u>           | <u>234</u>                       | <u>-0-</u>           |
| <b>Other Financing Sources (Uses):</b>                  |                       |                       |                             |                                  |                      |
| Operating transfers out                                 | \$ ( <u>211,646</u> ) | \$ ( <u>214,480</u> ) | \$ ( <u>214,480</u> )       | \$ ( <u>2,834</u> )              | \$ <u>-0-</u>        |
| Total Other Financing<br>Sources (Uses)                 | \$ ( <u>211,646</u> ) | \$ ( <u>214,480</u> ) | \$ ( <u>214,480</u> )       | \$ ( <u>2,834</u> )              | \$ <u>-0-</u>        |
| Net Change in Fund<br>Balances                          | \$ -0-                | \$ ( 2,600)           | \$ ( 2,600)                 | \$ ( 2,600)                      | \$ -0-               |
| <b>Fund Balances:</b>                                   |                       |                       |                             |                                  |                      |
| July 1, 2010  | <u>-0-</u>            | <u>2,600</u>          | <u>2,600</u>                | <u>2,600</u>                     | <u>-0-</u>           |
| June 30, 2011   | \$ <u><u>-0-</u></u>  | \$ <u><u>-0-</u></u>  | \$ <u><u>-0-</u></u>        | \$ <u><u>-0-</u></u>             | \$ <u><u>-0-</u></u> |

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE IDEA PART B FUND**  
For the Year Ended June 30, 2011

|   | Budgeted Amounts |              | Actual<br>(GAAP)<br>(Basis) | Variances<br>Positive (Negative) |                    |
|---|------------------|--------------|-----------------------------|----------------------------------|--------------------|
|   |                  |              |                             | Original                         | Final              |
|   | Original         | Final        | (Basis)                     | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues:</b>  |                  |              |                             |                                  |                    |
| Federal sources   | \$ 1,182,030     | \$ 1,194,585 | \$ 1,194,585                | \$ 12,555                        | \$ -0-             |
| Total Revenues  | \$ 1,182,030     | \$ 1,194,585 | \$ 1,194,585                | \$ 12,555                        | \$ -0-             |
| <b>Expenditures:</b>                                    |                  |              |                             |                                  |                    |
| Instruction   | \$ 754,951       | \$ 691,398   | \$ 691,398                  | \$ 63,553                        | \$ -0-             |
| Support services  | 402,079          | 491,280      | 491,280                     | ( 89,201)                        | -0-                |
| Total Expenditures                                      | \$ 1,157,030     | \$ 1,182,678 | \$ 1,182,678                | \$( 25,648)                      | \$ -0-             |
| Excess (Deficiency) of<br>Revenues Over<br>Expenditures | \$ 25,000        | \$ 11,907    | \$ 11,907                   | \$( 13,093)                      | \$ -0-             |
| <b>Other Financing Sources (Uses):</b>                  |                  |              |                             |                                  |                    |
| Operating transfers out                                 | \$ ( 25,000)     | \$( 11,907)  | \$( 11,907)                 | \$( 13,093)                      | \$ -0-             |
| Total Other Financing<br>Sources (Uses)                 | \$ ( 25,000)     | \$( 11,907)  | \$( 11,907)                 | \$( 13,093)                      | \$ -0-             |
| Net Change in Fund<br>Balances                          | \$ -0-           | \$ -0-       | \$ -0-                      | \$ -0-                           | \$ -0-             |
| <b>Fund Balances:</b>                                   |                  |              |                             |                                  |                    |
| July 1, 2010  | -0-              | -0-          | -0-                         | -0-                              | -0-                |
| June 30, 2011   | \$ -0-           | \$ -0-       | \$ -0-                      | \$ -0-                           | \$ -0-             |

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2011

**Budgetary Comparison Schedule**

**Note 1: Basis of Presentation**

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

**Note 2: Budget Amendments and Revisions**

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

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**SUPPLEMENTAL INFORMATION**

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**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2011

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title            | Catalog of<br>Federal Domestic<br>Assistance Number | Federal<br>Expenditures |
|---|---|-------------------------|
| <b>U. S. Department of Agriculture</b>                                |   |                         |
| Passed-through Mississippi Department of Education:                   |   |                         |
| Child Nutrition Cluster:  |   |                         |
| School Breakfast Program  | 10.553  | \$ 654,537              |
| National School Lunch Program   | 10.555  | <u>2,321,754</u>        |
| Total Child Nutrition Cluster   |   | <u>\$ 2,976,291</u>     |
| Total Passed-Through Mississippi Department of Education              |   | <u>\$ 2,976,291</u>     |
| Total U. S. Department of Agriculture                                 |   | <u>\$ 2,976,291</u>     |
| <b>Federal Communications Commission</b>                              |   |                         |
| Administered through the Universal Service<br>Administrative Company: |   |                         |
| The School and Libraries Program of the Universal<br>Service Fund     | 32.XXX  | <u>\$ 3,460</u>         |
| Total Federal Communications Commission                               |   | <u>\$ 3,460</u>         |
| <b>U. S. Department of Education</b>                                  |   |                         |
| Passed-through Mississippi Department of Education:                   |   |                         |
| Education Technology Cluster  |   |                         |
| Education Technology - State Grants                                   | 84.318  | \$ 5,068                |
| ARRA - Education Technology - State Grants                            | 84.386  | <u>21,886</u>           |
| Total Education Technology Cluster                                    |   | <u>\$ 26,954</u>        |
| Career and Technical Education - Basic Grants to States               | 84.048  | \$ 72,968               |
| Safe and Drug-Free Schools and Communities - State Grants             | 84.186  | 16,216                  |
| Rural Education   | 84.358  | 259,738                 |
| Improving Teacher Quality - State Grants                              | 84.367  | 356,598                 |
| ARRA - Education for Homeless Children and Youth                      | 84.387  | 7,065                   |
| ARRA - State Fiscal Stabilization Fund - Education State Grants       | 84.394  | 1,905,796               |
| ARRA - Education Jobs Fund  | 84.410  | <u>1,423,134</u>        |
| Subtotal  |   | <u>\$ 4,041,515</u>     |
| Title I, Part A Cluster:  |   |                         |
| Title I - Grants to Local Educational Agencies                        | 84.010  | \$ 2,009,827            |
| ARRA - Title I Grants to Local Educational Agencies                   | 84.389  | <u>360,243</u>          |
| Total Title I, Part A Cluster   |   | <u>\$ 2,370,070</u>     |

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2011

-Continued-

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title | Catalog of<br>Federal Domestic<br>Assistance Number | Federal<br>Expenditures     |
|--|---|-----------------------------|
| Special Education Cluster:                                 |   |                             |
| Special Education - Grants to States                       | 84.027  | \$ 1,256,973                |
| Special Education - Preschool Grants                       | 84.173  | 56,288                      |
| ARRA - Special Education - Grants to States                | 84.391  | 908,235                     |
| ARRA - Special Education - Preschool Grants                | 84.392  | <u>66,567</u>               |
| Total Special Education Cluster                            |   | <u>\$ 2,288,063</u>         |
| Total Passed-through Mississippi Department of Education   |   | <u>\$ 8,726,602</u>         |
| Total U. S. Department of Education                        |   | <u>\$ 8,726,602</u>         |
| <br>   |   |                             |
| Total for all Federal Awards                               |   | <u><u>\$ 11,706,353</u></u> |

NOTES TO SCHEDULE

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER**  
**EXPENDITURES - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2011

| <u>Expenditures</u>          | <u>Total</u>         | <u>Instruction<br/>and Other<br/>Student<br/>Instructional<br/>Expenditures</u> | <u>General<br/>Administration</u> | <u>School<br/>Administration</u> | <u>Other</u>         |
|------------------------------|----------------------|---|-----------------------------------|----------------------------------|----------------------|
| Salaries and fringe benefits | \$ 42,768,927        | \$ 33,313,657   | \$ 1,451,909                      | \$ 3,227,393                     | \$ 4,775,968         |
| Other                        | <u>17,807,395</u>    | <u>4,689,240</u>  | <u>233,740</u>                    | <u>25,545</u>                    | <u>12,858,870</u>    |
| Total                        | <u>\$ 60,576,322</u> | <u>\$ 38,002,897</u>  | <u>\$ 1,685,649</u>               | <u>\$ 3,252,938</u>              | <u>\$ 17,634,838</u> |
| Total number of students *   | <u>6,556</u>         |   |                                   |                                  |                      |
| Cost per student             | <u>\$ 9,240</u>      | <u>\$ 5,797</u>   | <u>\$ 257</u>                     | <u>\$ 496</u>                    | <u>\$ 2,690</u>      |

**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.

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

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

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

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

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**OTHER INFORMATION**

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**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GENERAL FUND**  
For the Last Four Years  
**"UNAUDITED"**

|  | <u>2011</u>          | <u>2010*</u>         | <u>2009*</u>         | <u>2008*</u>          |
|--|----------------------|----------------------|----------------------|-----------------------|
| <b>Revenues:</b>                                     |                      |                      |                      |                       |
| Local sources  | \$ 12,720,682        | \$ 12,477,048        | \$ 12,379,675        | \$ 12,154,081         |
| State sources  | 28,902,031           | 29,560,410           | 31,621,657           | 32,259,102            |
| Federal sources                                      | <u>251,769</u>       | <u>283,223</u>       | <u>223,055</u>       | <u>326,061</u>        |
| Total  | <u>\$ 41,874,482</u> | <u>\$ 42,320,681</u> | <u>\$ 44,224,387</u> | <u>\$ 44,739,244</u>  |
| <b>Expenditures:</b>                                 |                      |                      |                      |                       |
| Instruction  | \$ 24,525,215        | \$ 25,396,742        | \$ 26,998,829        | \$ 26,347,371         |
| Support services                                     | 16,368,887           | 15,537,062           | 16,881,218           | 16,350,104            |
| Non-instructional services                           | -0-                  | -0-                  | 19                   | -0-                   |
| Facilities acquisition and construction              | <u>50,753</u>        | <u>89,434</u>        | <u>375,000</u>       | <u>463,789</u>        |
| Total Expenditures                                   | <u>\$ 40,944,855</u> | <u>\$ 41,023,238</u> | <u>\$ 44,255,066</u> | <u>\$ 43,161,264</u>  |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>929,627</u>       | <u>\$ 1,297,443</u>  | <u>\$( 30,679)</u>   | <u>\$ 1,577,980</u>   |
| <b>Other Financing Sources (Uses)</b>                |                      |                      |                      |                       |
| Proceeds of loans                                    | \$ 600,000           | \$ -0-               | \$ 1,350,000         | \$ 650,000            |
| Insurance loss recoveries                            | -0-                  | 11,975               | -0-                  | 24,550                |
| Sale of other property                               | 20,508               | 14,270               | -0-                  | -0-                   |
| Operating transfers in                               | 23,822               | 18,767               | 17,154               | 15,643                |
| Other financing sources                              | 10                   | 1,710                | 4,139                | -0-                   |
| Operating transfers out                              | <u>(261,525)</u>     | <u>( 15,913)</u>     | <u>( 1,933,617)</u>  | <u>( 2,197,483)</u>   |
| Total Other Financing Sources (Uses)                 | <u>\$ 382,815</u>    | <u>\$ 30,809</u>     | <u>\$( 562,324)</u>  | <u>\$( 1,507,290)</u> |
| Net Change in Fund Balances                          | <u>\$ 1,312,442</u>  | <u>\$ 1,328,252</u>  | <u>\$( 593,003)</u>  | <u>\$ 70,690</u>      |
| <b>Fund Balances:</b>                                |                      |                      |                      |                       |
| Beginning of Period                                  | <u>\$ 7,738,746</u>  | <u>\$ 6,410,494</u>  | <u>\$ 7,003,497</u>  | <u>\$ 6,932,807</u>   |
| End of Period  | <u>\$ 9,051,188</u>  | <u>\$ 7,738,746</u>  | <u>\$ 6,410,494</u>  | <u>\$ 7,003,497</u>   |

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUNDS**  
For the Last Four Years  
**“UNAUDITED”**

|  | <u>2011</u>           | <u>2010*</u>         | <u>2009*</u>           | <u>2008*</u>         |
|--|-----------------------|----------------------|------------------------|----------------------|
| <b>Revenues:</b>                                     |                       |                      |                        |                      |
| Local sources  | \$ 17,156,365         | \$ 17,147,917        | \$ 16,736,263          | \$ 16,576,415        |
| State sources  | 30,604,378            | 31,454,225           | 33,364,053             | 33,974,399           |
| Federal sources                                      | <u>11,568,137</u>     | <u>10,469,524</u>    | <u>6,426,020</u>       | <u>5,956,742</u>     |
| Total  | <u>\$ 59,328,880</u>  | <u>\$ 59,071,666</u> | <u>\$ 56,526,336</u>   | <u>\$ 56,507,556</u> |
| <b>Expenditures:</b>                                 |                       |                      |                        |                      |
| Instruction  | \$ 32,641,580         | \$ 33,106,353        | \$ 31,125,810          | \$ 30,226,185        |
| Support services                                     | 18,596,700            | 17,285,883           | 18,337,445             | 17,673,167           |
| Noninstructional services                            | 3,409,207             | 3,370,232            | 3,383,920              | 3,229,080            |
| Facilities acquisition and construction              | 2,496,954             | 915,098              | 2,081,353              | 1,172,732            |
| <b>Debt service:</b>                                 |                       |                      |                        |                      |
| Principal  | 2,513,194             | 2,350,000            | 2,316,539              | 2,074,934            |
| Interest   | 908,931               | 950,017              | 1,017,858              | 1,077,295            |
| Other  | <u>9,756</u>          | <u>4,550</u>         | <u>8,446</u>           | <u>6,525</u>         |
| Total Expenditures                                   | <u>\$ 60,576,322</u>  | <u>\$ 57,982,133</u> | <u>\$ 58,271,371</u>   | <u>\$ 55,459,918</u> |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>\$ (1,247,442)</u> | <u>\$ 1,089,533</u>  | <u>\$ ( 1,745,035)</u> | <u>\$ 1,047,638</u>  |
| <b>Other Financing Sources (Uses)</b>                |                       |                      |                        |                      |
| Proceeds of bonds                                    | \$ 600,000            | \$ 3,000,000         | \$ -0-                 | \$ -0-               |
| Proceeds of loans                                    | -0-                   | -0-                  | 1,350,000              | 650,000              |
| Insurance loss recoveries                            | -0-                   | 11,975               | -0-                    | 24,550               |
| Sale of other property                               | 22,033                | 14,270               | -0-                    | -0-                  |
| Operating transfers in                               | 499,827               | 275,602              | 1,950,771              | 2,213,126            |
| Other financing sources                              | 10                    | 1,710                | 4,139                  | -0-                  |
| Operating transfers out                              | <u>( 499,827)</u>     | <u>( 275,602)</u>    | <u>( 1,950,771)</u>    | <u>( 2,213,126)</u>  |
| Total Other Financing Sources (Uses)                 | <u>\$ 622,043</u>     | <u>\$ 3,027,955</u>  | <u>\$ 1,354,139</u>    | <u>\$ 674,550</u>    |
| Net Change in Fund Balances                          | <u>\$ (625,399)</u>   | <u>\$ 4,117,488</u>  | <u>\$ ( 390,896)</u>   | <u>\$ 1,722,188</u>  |
| <b>Fund Balances:</b>                                |                       |                      |                        |                      |
| Beginning of Period, as originally reported          | \$ 17,737,199         | \$ 13,606,225        | \$ 13,912,328          | \$ 12,190,296        |
| Prior Period Adjustment(s)                           | <u>-0-</u>            | <u>-0-</u>           | <u>59,429</u>          | <u>-0-</u>           |
| Beginning of Period, as Restated                     | <u>\$ 17,737,199</u>  | <u>\$ 13,606,225</u> | <u>\$ 13,971,757</u>   | <u>\$ 12,190,296</u> |
| Increase (Decrease) in reserve<br>for Inventory      | <u>\$ 15,145</u>      | <u>\$ 13,486</u>     | <u>\$ 25,364</u>       | <u>\$ ( 156)</u>     |
| End of Period  | <u>\$ 17,126,945</u>  | <u>\$ 17,737,199</u> | <u>\$ 13,606,225</u>   | <u>\$ 13,912,328</u> |

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

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

Superintendent and School Board  
Lee County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2011, which collectively comprise the Lee County School District's basic financial statements and have issued our report thereon dated August 13, 2013. 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**

Management of Lee County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting, that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (Finding 2011-1)

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

-Continued-

**Compliance and Other Matters**

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

However, we noted a certain immaterial instance of noncompliance which we have reported to the management of Lee County School District, in the Independent Auditors' Report on Compliance with State Laws and Regulations dated August 13, 2013, included within this document.

The Lee County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, according, 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.

*M. M. Winkler & Associates, PLLC*

August 13, 2013

**M. M. WINKLER & ASSOCIATES, PLLC**

***Certified Public Accountants***

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**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Superintendent and School Board  
Lee County School District

**Compliance**

We have audited the compliance of the Lee County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The school 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 school district's management. Our responsibility is to express an opinion on school district's compliance based on our audit.

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

In our opinion, Lee County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

- Continued -

**Internal Control Over Compliance**

Management of the Lee County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be 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.

*M. M. Winkler & Associates, PLLC*

August 13, 2013

**INDEPENDENT AUDITOR'S 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  
Lee County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2011, which collectively comprise Lee County School District's basic financial statements and have issued our report thereon dated August 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances 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 in appropriate 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 other state laws and regulations.

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

-Continued-

Finding

In accordance with the *Mississippi Public School Asset Management Manual* prepared by the Department of Property, requests for disposal of property that have been submitted to the property manager should be submitted to the school district board for authorization of disposal (before the items are discarded or sold at auction). During our testing of capital assets it was noted that disposal of property at auction occurred before the school district board authorized the surplus of the property and sale of property to the highest bidder.

Recommendation

We recommend that the property manager insure that the proper approval from the school district board is obtained before the disposal of property.

Response

Since the 2011 fiscal year, the district has established improved internal controls in the form of written guidelines and standardized forms to be used for the disposal of fixed assets. The procedures and forms are contained in our "Fixed Asset Guidelines" manual and are reviewed with all staff responsible for fixed assets (principals, bookkeepers, and other personnel)

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

The Lee 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.

*M. M. Winkler & Associates, PLLC*

August 13, 2013

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2011

**Section 1: Summary of Auditors' Results**

***Financial Statements:***

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                          | Unqualified   |
| 2. Internal control over financial reporting:                |               |
| a. Material weakness(es) identified?                         | Yes           |
| b. Significant deficiency(ies) identified?                   | None Reported |
| 3. Noncompliance material to the financial statements noted? | No            |

***Federal Awards:***

- |   |               |
|---|---------------|
| 4. Internal control over major programs:  |               |
| a. Material weakness(es) identified?  | No            |
| b. Significant deficiency(ies) identified?  | None Reported |
| 5. Type of auditors' report issued on compliance for major programs:  | Unqualified   |
| 6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No            |
| 7. Identification of major programs:  |               |
| Cluster: Child Nutrition Cluster  |               |
| CFDA#: 10.553; CFDA#: 10.555  |               |
| Cluster: Title I, Part A Cluster  |               |
| CFDA#: 84.010; CDFA#: 84.389  |               |
| Cluster: Special Education  |               |
| CFDA#: 84.027; CFDA#: 84.173; CFDA#:84.391;   |               |
| CDFA#: 84.392   |               |
| State Fiscal Stabilization Fund - Educational State Grants  |               |
| CFDA#: 84.394   |               |
| Education Jobs Fund   |               |
| CFDA#: 84.410   |               |
| 8. The dollar threshold used to distinguish between type A and type B programs:   | \$ 351,190    |
| 9. Auditee qualified as a low-risk auditee?   | Yes           |

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2011

- Continued -

**Section 2: Financial Statements Findings**

**2011-1 (Material Weakness)**

Condition: Some liabilities were not recorded in the proper accounting period.

Criteria: Management is responsible for ensuring that the financial statements are presented fairly, in conformity with accounting principals generally accepted in the United State of America.

Cause of Condition: The District did not use effective cutoff procedures for accounts payable.

Effect of Condition: Improper cutoff of accounts payable could result in a material misstatement to accounts payable.

Recommendation: The District should ensure that payables are recorded in the period in which the goods or services were received in order to reflect proper cutoff and ensure that the financial statements are complete with respect to accounts payable.

Response: The District has implemented new controls in an effort to improve the cutoff of accounts payable. These improved controls will help the District to ensure that the financial statements are complete with respect to accounts payable and are presented fairly in conformity with accounting principles generally accepted in the United State of America.

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2011

- Continued -

**Section 3: Federal Awards Findings and Questioned Costs**

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

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