



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

PHIL BRYANT
State Auditor

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

LINDA C. REEVES, CPA
Director, Education Audit Section

LEE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

*The Office of the State Auditor does not discriminate on the basis of
race, religion, national origin, sex, age or disability*

LEE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT 1
 Independent Auditor's Report on the Basic Financial Statements and Supplemental Information 3

MANAGEMENT'S DISCUSSION AND ANALYSIS 5

FINANCIAL STATEMENTS 13
 Statement of Net Assets 15
 Statement of Activities 16
 Balance Sheet - Governmental Funds 17
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets 18
 Statement of Revenues, Expenditures and Changes in Fund Balances 19
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in
 Fund Balances to the Statement of Activities 20
 Statement of Fiduciary Net Assets 21
 Notes to Financial Statements 22

REQUIRED SUPPLEMENTARY INFORMATION 35
 Budgetary Comparison Schedule - General Fund 37
 Notes to the Required Supplementary Information 38

SUPPLEMENTAL INFORMATION 39
 Schedule of Expenditures of Federal Awards 40
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds 41

REPORTS ON INTERNAL CONTROL AND COMPLIANCE 43
 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and
 Other Matters Based on an Audit of the Financial Statements Performed in Accordance with
 Government Auditing Standards 45
 Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal
 Program and Internal Control over Compliance in Accordance with OMB Circular A-133 47

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS 49
 Independent Auditor's Report on Compliance with State Laws and Regulations 51

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 53

AUDITEE'S CORRECTIVE ACTION PLAN 57

LEE COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

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, 2005, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District, as of June 30, 2005, 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.

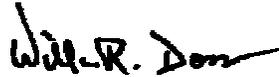
In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2006, on our consideration of the Lee County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 11 and the Budgetary Comparison Schedule and corresponding notes on pages 37 and 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 12, 2006

LEE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

Lee County School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

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, 2005. The intent of this discussion 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

Net Assets increased \$1,123,409, which is an increase of 4% from fiscal year 2004. This increase was due mainly to the completion of construction projects and the reduction of long term debt.

<u>Revenue and Expense</u>	<u>Revenues</u>	<u>%</u>	<u>Expenses</u>	<u>%</u>
General	\$ 37,254,877	84	\$ 36,131,468	84
Program	\$ 7,095,983	16	\$ 7,095,983	16
Total	<u>\$ 44,350,860</u>	100	<u>\$ 43,227,451</u>	100

(Program revenues are those which are received in the form of charges for services, grants and contributions and are applied to specific programs.)

<u>General Fund</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>
2004	\$ 32,398,460	\$ 31,104,285	\$ 7,011,673
2005	\$ 34,359,393	\$ 34,092,155	\$ 7,133,830
Net Change	<u>\$ 1,960,933</u>	<u>\$ 2,987,870</u>	<u>\$ 122,157</u>

The fund increase from the prior year was a result of increases in local and state revenues and a reduction in long term debt.

<u>Capital Assets</u> , net of accumulated depreciation	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
	\$ 44,695,898	\$ 47,040,756	\$ 2,344,858

The decrease in net value of capital assets resulted mainly from the depreciation of capital assets.

<u>Long-term Debt</u>	<u>2004</u>	<u>2005</u>	<u>Net Change</u>
	\$30,087,557	\$28,895,669	(\$1,191,888)

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all the District's assets and liabilities, with the difference between assets and liabilities being 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

Lee County School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

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, other debt and interest on long-term liabilities.

The government-wide financial statements, Exhibit A and Exhibit B, can be found in this report.

Fund financial statement. 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 short-term view of the school district's operations.

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

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

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

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

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

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

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the

Lee County School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

case of the District, assets exceeded liabilities by \$30,978,893 as of June 30, 2005.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g. land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. Capital assets percentage of net assets is 60%.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 compared to 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current assets	\$ 15,721,430	\$ 18,524,835	-15%
Capital assets, net	47,040,756	44,695,898	5%
Total assets	\$ 62,762,186	\$ 63,220,733	-1%
Current liabilities	\$ 4,724,780	\$ 5,116,194	-8%
Long-term liabilities	27,058,513	28,249,055	-4%
Total liabilities	\$ 31,783,293	\$ 33,365,249	-5%
Net assets:			
Capital assets, net	\$ 18,621,756	\$ 19,926,038	-7%
Restricted	4,924,269	2,880,990	71%
Unrestricted	7,432,868	7,048,456	5%
Total net assets	\$ 30,978,893	\$ 29,855,484	4%

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

· The principal retirement of long term debt:	\$ 1,807,196	
· Additions to capital assets and improvements:	\$ 3,959,896	

Changes in net assets. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 compared to 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Revenues:			
Program revenues	\$ 7,095,983	\$ 6,033,219	18%
General revenues	37,254,877	35,194,261	6%
Total revenues	44,350,860	41,227,480	8%
Expenses:			
Instruction	25,658,430	23,152,509	11%
Support services	13,619,861	12,281,308	11%
Non-instructional	2,729,217	2,249,395	21%
Interest on long-term debt	1,219,943	1,788,681	-32%
Total expenses	\$ 43,227,451	\$ 39,471,893	10%

Lee County School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

Change in net assets: \$ 1,123,409 \$ 1,755,587 -36%

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

Net (Expense) Revenue

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Instruction	\$ (21,450,365)	\$ (20,676,199)	4%
Support services	(13,424,152)	(11,168,555)	20%
Non-instructional	(37,008)	194,761	-119%
Interest on long-term debt	(1,219,943)	(1,788,681)	-32%
Total expenses	\$ (36,131,468)	\$ (33,438,674)	8%
Net cost of activities	\$ (36,131,468)	\$ (33,438,674)	8%
1) property taxes of	11,856,325	10,925,788	9%
2) state revenue of	24,195,522	23,443,457	3%
3) federal revenue of	161,185	159,111	1%
Investment earnings of	463,161	660,649	-30%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. The following table reflects fund balances for the fiscal year ending June 30, 2005 compared to fiscal year 2004.

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Unreserved/undesignated	\$ 7,852,231	\$ 7,906,295	-1%
Reserved or designated	4,989,911	7,340,134	-32%
Total fund balance	\$ 12,842,142	\$ 15,246,429	-16%
General Fund	\$ 7,133,830	\$ 7,011,673	2%
Other Governmental Funds:	5,708,312	8,234,756	-31%
Total fund balance	\$ 12,842,142	\$ 15,246,429	-16%

Unreserved and undesignated funds are funds which are available for spending at the District's discretion. Reserved or designated funds are those which are committed for debt service and capital improvements. The General Fund is the principal operating fund of the District.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the District's actual revenue and expenditure amounts for the General Fund and other major special revenue funds is provided in this

Lee County School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005

report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The table below summarizes and compares capital assets and accumulated depreciation for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>		<u>2004</u>	<u>% Change</u>
Total Capital Assets	\$ 60,940,868	\$	57,624,124	8%
Accumulated Depreciation	<u>13,900,112</u>		<u>12,928,226</u>	8%
Total net assets	<u>\$ 47,040,756</u>	<u>\$</u>	<u>44,695,898</u>	5%

Additional information of the District's capital assets can be found the notes attached to this report.

Debt Administration. The table below summarizes and compares general obligation bonds and other long-term debt for the fiscal year June 30, 2005 and compares it to those corresponding values for 2004.

	<u>2005</u>		<u>2004</u>	<u>% Change</u>
General Obligation Bonds	\$ 27,910,000	\$	29,175,000	-4%
Other	<u>985,669</u>		<u>912,557</u>	8%
Total long-term debt	<u>\$ 28,895,669</u>	<u>\$</u>	<u>30,087,557</u>	-4%

Additional information of the District's long-term debt can be found in the notes attached to 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 is now committed to financial excellence. The millage has not increased over the past two years despite funding cuts and additional mandated expenditures by the State of Mississippi. In addition, the district system of financial planning, budgeting and internal financial controls are now well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, you may contact:
 Office of the Superintendent
 Lee County Schools
 1280 College View Drive
 Tupelo, MS 38804

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 14,298,497
Due from other governments	920,201
Long term deferred charge	410,210
Other receivables, net	20,462
Inventories	72,060
Capital assets, net	<u>47,040,756</u>
 Total Assets	 <u>62,762,186</u>
Liabilities	
Accounts payable and accrued liabilities	2,469,078
Interest payable on long-term liabilities	418,546
Long-term liabilities, due within one year	
Capital related liabilities	1,809,000
Non-capital related liabilities	28,156
Long-term liabilities, due beyond one year	
Capital related liabilities	26,610,000
Non-capital related liabilities	<u>448,513</u>
 Total Liabilities	 <u>31,783,293</u>
Net Assets	
Investment in capital assets, net of related debt	18,621,756
Restricted net assets:	
Expendable:	
School-based activities	72,060
Debt service	2,242,264
Capital improvements	2,476,248
Unemployment benefits	133,697
Unrestricted	<u>7,432,868</u>
 Total Net Assets	 <u>\$ 30,978,893</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, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 25,658,430	932,162	3,275,903		(21,450,365)
Support services	13,619,861		195,709		(13,424,152)
Non-instructional	2,729,217	863,407	1,828,802		(37,008)
Interest on long-term liabilities	1,219,943				(1,219,943)
Total Governmental Activities	\$ 43,227,451	1,795,569	5,300,414	0	(36,131,468)

General Revenues:

Taxes:

General purpose levies	9,008,599
Debt purpose levies	2,847,726

Unrestricted grants and contributions:

State	24,195,522
Federal	161,185
Unrestricted investment earnings	463,161
Other	578,684
Total General Revenues	37,254,877

Change in Net Assets 1,123,409

Net Assets - Beginning 29,855,484

Net Assets - Ending \$ 30,978,893

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

LEE COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Building Fund		
ASSETS				
Cash and cash equivalents	\$ 9,281,256	1,771,307	3,245,934	14,298,497
Due from other governments	598,568		321,633	920,201
Due from other funds	98,574	750,000	175,000	1,023,574
Inventories			72,060	72,060
Total Assets	\$ 9,978,398	2,521,307	3,814,627	16,314,332
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 2,094,568	45,059	329,451	2,469,078
Due to other funds	750,000		253,112	1,003,112
Total Liabilities	2,844,568	45,059	582,563	3,472,190
Fund Balances:				
Reserved for:				
Inventories			72,060	72,060
Capital projects		2,476,248		2,476,248
Debt service			2,307,906	2,307,906
Unemployment benefits			133,697	133,697
Unreserved:				
Undesignated, reported in:				
General Fund	7,133,830			7,133,830
Special Revenue Funds			718,401	718,401
Total Fund Balances	7,133,830	2,476,248	3,232,064	12,842,142
Total Liabilities and Fund Balances	\$ 9,978,398	2,521,307	3,814,627	16,314,332

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, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 12,842,142
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$13,900,112.	47,040,756
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(28,895,669)
3. Bond issuance costs are reported as long-term deferred charges in the Statement of Net Assets, but were reported as current period expenditures in the governmental funds.	410,210
4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(418,546)
Total Net Assets - Governmental Activities	\$ <u><u>30,978,893</u></u>

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

LEE COUNTY SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2005

	Major Funds		Other	Total
	General Fund	Building Fund	Governmental Funds	Governmental Funds
Revenues:				
Local sources	\$ 10,638,263	101,006	3,954,470	14,693,739
State sources	23,541,764		1,571,549	25,113,313
Federal sources	179,366		4,364,442	4,543,808
Total Revenues	<u>34,359,393</u>	<u>101,006</u>	<u>9,890,461</u>	<u>44,350,860</u>
Expenditures:				
Instruction	21,756,106		3,064,958	24,821,064
Support services	12,316,068	279,085	1,091,279	13,686,432
Noninstructional services	1,329		2,739,463	2,740,792
Facilities acquisition and construction	18,652	3,015,813		3,034,465
Debt service:				
Principal			1,807,196	1,807,196
Interest			1,235,023	1,235,023
Other			6,970	6,970
Total Expenditures	<u>34,092,155</u>	<u>3,294,898</u>	<u>9,944,889</u>	<u>47,331,942</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>267,238</u>	<u>(3,193,892)</u>	<u>(54,428)</u>	<u>(2,981,082)</u>
Other Financing Sources (Uses):				
Proceeds of loans	509,000			509,000
Insurance loss recoveries	41,239			41,239
Sale of transportation equipment	19,381			19,381
Sale of other property	13,556			13,556
Operating transfers in	21,743	750,000	175,000	946,743
Operating transfers out	(750,000)		(196,743)	(946,743)
Total Other Financing Sources (Uses)	<u>(145,081)</u>	<u>750,000</u>	<u>(21,743)</u>	<u>583,176</u>
Net Change in Fund Balances	<u>122,157</u>	<u>(2,443,892)</u>	<u>(76,171)</u>	<u>(2,397,906)</u>
Fund Balances:				
July 1, 2004	7,011,673	4,920,140	3,314,616	15,246,429
Increase (Decrease) in reserve for inventory			(6,381)	(6,381)
June 30, 2005	<u>\$ 7,133,830</u>	<u>2,476,248</u>	<u>3,232,064</u>	<u>12,842,142</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, 2005

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (2,397,906)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$3,959,896 and the depreciation expense amounted to \$1,423,829.	2,536,067
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	1,807,196
3. 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.	15,080
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities.	(191,209)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(6,381)
6. Proceeds of long-term liabilities are reported in the governmental funds, but not in the Statement of Activities.	(509,000)
7. Issuance costs for long-term liabilities are reported as expenditures in the governmental funds, but are deferred and the expense amortized in the Statement of Activities.	(24,130)
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>(106,308)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,123,409</u>

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

LEE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

		Agency Funds
Assets		<u> </u>
Cash and cash equivalents	\$	<u> 166,882</u>
Total Assets	\$	<u><u> 166,882</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	2,426
Due to other funds		20,462
Due to student clubs		<u> 143,994</u>
Total Liabilities	\$	<u><u> 166,882</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, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Building Fund - This fund is used to account for expenditures associated with building projects of the school district and are being financed by the proceeds of general obligation bonds.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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

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

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

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

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

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

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

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

M. Property Taxes.

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

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the Lee County School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents.

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$14,298,497 and \$166,882, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$14,298,497. The bank balance was \$16,794,267.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$16,794,267 was exposed to custodial credit risk.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 98,574	750,000
Building Fund	750,000	
Other governmental funds	175,000	253,112
Fiduciary Fund		<u>20,462</u>
Total	<u>\$ 1,023,574</u>	<u>1,023,574</u>

The interfund loans are to close-out federal program funds at year-end and to provide a nominal amount of surplus in the Fiduciary Fund.

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 21,743	750,000
Building Fund	750,000	
Other governmental funds	<u>175,000</u>	<u>196,743</u>
Total	<u>\$ 946,743</u>	<u>946,743</u>

The purpose of the interfund transfers are to transfer federal program indirect cost and to transfer Debt Service Funds from state EEF and any permanent transfer of funds from the General Fund to the Capital Projects Funds.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(5) Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Balance 6-30-2005
<u>Non-depreciable capital assets:</u>					
Land	\$ 800,495				800,495
Construction in progress	15,765,448	3,034,465		(11,990,846)	6,809,067
Total non-depreciable capital assets	<u>16,565,943</u>	<u>3,034,465</u>	<u>0</u>	<u>(11,990,846)</u>	<u>7,609,562</u>
<u>Depreciable capital assets:</u>					
Buildings	33,879,780		162,712	11,990,846	45,707,914
Building improvements	859,914				859,914
Improvements other than buildings	603,127				603,127
Mobile equipment	5,056,273	545,313	460,911		5,140,675
Furniture and equipment	659,087	380,118	19,529		1,019,676
Total depreciable capital assets	<u>41,058,181</u>	<u>925,431</u>	<u>643,152</u>	<u>11,990,846</u>	<u>53,331,306</u>
<u>Less accumulated depreciation for:</u>					
Buildings	9,538,800	859,332	80,279		10,317,853
Building improvements	119,476	34,397			153,873
Improvements other than buildings	232,183	16,442			248,625
Mobile equipment	2,655,605	389,081	358,129		2,686,557
Furniture and equipment	382,162	124,577	13,535		493,204
Total accumulated depreciation	<u>12,928,226</u>	<u>1,423,829</u>	<u>451,943</u>	<u>0</u>	<u>13,900,112</u>
Total depreciable capital assets, net	<u>28,129,955</u>	<u>(498,398)</u>	<u>191,209</u>	<u>11,990,846</u>	<u>39,431,194</u>
Governmental activities capital assets, net	<u>\$ 44,695,898</u>	<u>2,536,067</u>	<u>191,209</u>	<u>0</u>	<u>47,040,756</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 1,238,732
Support services	113,906
Non-instructional	<u>71,191</u>
Total Depreciation Expense	<u>\$ 1,423,829</u>

The capital assets above include significant amounts of buildings and improvements other than buildings 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.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Mooreville Elementary	\$ 22,960	
Shannon High chemistry lab	20,319	
Mooreville High cafeteria	<u>1,011,881</u>	
Total	<u>\$ 1,055,160</u>	<u>0</u>

(6) Long-term Liabilities.

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

	<u>Balance 7-1-2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6-30-2005</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 29,175,000		1,265,000	27,910,000	1,300,000
B. Three mill notes payable	515,000	509,000	515,000	509,000	509,000
C. Shortfall notes payable	84,502		27,196	57,306	28,156
D. Compensated absences payable	<u>313,055</u>	<u>106,308</u>		<u>419,363</u>	
Total	<u>\$ 30,087,557</u>	<u>615,308</u>	<u>1,807,196</u>	<u>28,895,669</u>	<u>1,837,156</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1992	Varies	12-01-1992	12-01-2007	\$ 4,290,000	1,310,000
General obligation bonds, Series 1999	Varies	08-01-1999	08-01-2013	8,015,000	7,150,000
General obligation bonds, Series 2002	Varies	09-01-2002	09-01-2022	<u>19,650,000</u>	<u>19,450,000</u>
Total				<u>\$ 31,955,000</u>	<u>27,910,000</u>

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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

	Year Ending June 30	Principal	Interest	Total
2006	\$ 1,300,000	1,171,351	2,471,351	
2007	1,325,000	1,112,149	2,437,149	
2008	1,350,000	1,051,419	2,401,419	
2009	1,595,000	991,206	2,586,206	
2010	1,675,000	929,445	2,604,445	
2011 - 2015	8,770,000	3,497,649	12,267,649	
2016 - 2020	6,825,000	1,887,225	8,712,225	
2021 - 2023	<u>5,070,000</u>	<u>354,888</u>	<u>5,424,888</u>	
Total	\$ <u>27,910,000</u>	<u>10,995,332</u>	<u>38,905,332</u>	

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 13% of property assessments as of October 1, 2004. This debt will be retired from the Bond 92 Fund, Bond 99 Fund and Bond 02 Fund.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2004 three mill notes	1.66%	10-06-2004	10-06-2005	\$ <u>509,000</u>	<u>509,000</u>
Total				\$ <u>509,000</u>	<u>509,000</u>

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

	Year Ending June 30	Principal	Interest	Total
2006	\$ <u>509,000</u>	<u>8,449</u>	<u>517,449</u>	
Total	\$ <u>509,000</u>	<u>8,449</u>	<u>517,449</u>	

This debt will be retired from the Notes and Interest Fund.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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>Amount Issued</u>	<u>Amount Outstanding</u>
2003 shortfall notes	3.53%	08-26-2003	08-25-2006	\$ 84,502	57,306
Total				\$ <u>84,502</u>	<u>57,306</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 28,156	2,023	30,179
2007	<u>29,150</u>	<u>1,029</u>	<u>30,179</u>
Total	\$ <u>57,306</u>	<u>3,052</u>	<u>60,358</u>

This debt will be retired from the Shortfall Notes Fund.

D. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$2,365,424, \$2,113,643 and \$1,931,397, respectively, which equaled the required contributions for each year.

LEE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(8) Other Commitments.

Commitments under construction contracts are described in Note 5.

(9) Risk Management.

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

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Vocational School Consortium.

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

Section 37-13-92(6), Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational 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 procedures for student admission and transportation services for those students.

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

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 10,108,338	10,638,263	10,638,263	529,925	
State sources	23,183,434	23,541,764	23,541,764	358,330	
Federal sources	80,000	179,366	179,366	99,366	
Total Revenues	<u>33,371,772</u>	<u>34,359,393</u>	<u>34,359,393</u>	<u>987,621</u>	<u>0</u>
Expenditures:					
Instruction	20,180,026	21,756,106	21,756,106	(1,576,080)	
Support services	11,805,393	12,316,068	12,316,068	(510,675)	
Noninstructional services		1,329	1,329	(1,329)	
Facilities acquisition and construction	1,610,000	18,652	18,652	1,591,348	
Total Expenditures	<u>33,595,419</u>	<u>34,092,155</u>	<u>34,092,155</u>	<u>(496,736)</u>	<u>0</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(223,647)</u>	<u>267,238</u>	<u>267,238</u>	<u>490,885</u>	<u>0</u>
Other Financing Sources (Uses):					
Proceeds of loans	515,000	509,000	509,000	(6,000)	
Insurance loss recoveries	5,000	41,239	41,239	36,239	
Sale of transportation equipment	8,000	19,381	19,381	11,381	
Sale of other property		13,556	13,556	13,556	
Operating transfers in	1,561,316	1,963,837	21,743	402,521	(1,942,094)
Operating transfers out	(1,882,241)	(2,712,094)	(750,000)	(829,853)	1,962,094
Total Other Financing Sources (Uses)	<u>207,075</u>	<u>(165,081)</u>	<u>(145,081)</u>	<u>(372,156)</u>	<u>20,000</u>
Net Change in Fund Balances	<u>(16,572)</u>	<u>102,157</u>	<u>122,157</u>	<u>118,729</u>	<u>20,000</u>
Fund Balances:					
July 1, 2004	<u>7,802,000</u>	<u>7,011,673</u>	<u>7,011,673</u>	<u>(790,327)</u>	<u>0</u>
June 30, 2005	<u>\$ 7,785,428</u>	<u>7,113,830</u>	<u>7,133,830</u>	<u>(671,598)</u>	<u>20,000</u>

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, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

LEE COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

LEE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>176,773</u>
Child nutrition cluster:		
School breakfast program	10.553	455,981
National school lunch program	10.555	1,220,492
Total child nutrition cluster		<u>1,676,473</u>
Total U.S. Department of Agriculture		<u>1,853,246</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	<u>79,878</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	958,277
Vocational education - basic grants to states	84.048	59,649
Safe and drug-free schools and communities - state grants	84.186	43,759
State grants for innovative programs	84.298	40,842
Education technology state grants	84.318	19,858
Improving teacher quality - state grants	84.367	240,833
Grants for state assessments and related activities	84.369	404
Total		<u>1,363,622</u>
Special education cluster:		
Special education - grants to states	84.027	1,131,959
Special education - preschool grants	84.173	67,402
Total special education cluster		<u>1,199,361</u>
Total passed-through Mississippi Department of Education		<u>2,562,983</u>
Total U.S. Department of Education		<u>2,562,983</u>
Total for All Federal Awards		<u>\$ 4,496,107</u>

NOTES TO SCHEDULE

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

LEE COUNTY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 31,952,743	22,223,470	3,422,032	6,307,241
Other	<u>15,379,199</u>	<u>2,597,594</u>	<u>357,052</u>	<u>12,424,553</u>
Total	\$ <u><u>47,331,942</u></u>	<u><u>24,821,064</u></u>	<u><u>3,779,084</u></u>	<u><u>18,731,794</u></u>
Total number of students <u>6,351</u>				
Cost per student \$ <u><u>7,453</u></u> <u><u>3,908</u></u> <u><u>595</u></u> <u><u>2,949</u></u>				

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

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

Administrative - includes expenditures for the following functions: support services - general administration (2300s); support services - school administration (2400s); and support services - business (2500s).

Other - includes all expenditure functions not included in instruction or administrative.

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
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, 2005, which collectively comprise the Lee County School District's basic financial statements and have issued our report thereon dated April 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

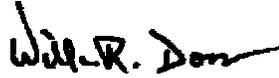
Compliance and Other Matters

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 12, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
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 are applicable to its major federal program for the year ended June 30, 2005. The school district's major federal program is identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Lee County School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The 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 the internal control over compliance in accordance with OMB Circular A-133.

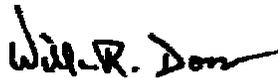
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 05-1.

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 12, 2006

LEE COUNTY SCHOOL DISTRICT

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

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S 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, 2005, which collectively comprise Lee County School District's basic financial statements and have issued our report thereon dated April 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$202,846 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Handwritten signature of Phil Bryant in black ink.

PHIL BRYANT
State Auditor

Handwritten signature of William R. Doss in black ink.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 12, 2006

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

LEE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal program: | Unqualified |
| 5. | Internal control over major program: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major program:
Child nutrition cluster
CFDA #10.553
CFDA #10.555 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

LEE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 3: Federal Award Findings and Questioned Costs

Reportable Condition Not Considered to be a Material Weakness

05-1. Finding

Program: Child nutrition cluster - CFDA #'s 10.553 & 10.555
U. S. Department of Agriculture; passed-through the Mississippi Department of Education.

Compliance requirement: Program income

During our examination of the district's daily lunch sales, we noted that the cash collection daily reconciliation reports were not signed by the cafeteria manager nor the cashier at three of the district's eleven cafeterias. This situation represents a weakness over the controls surrounding the program income requirement of the program.

Recommendation

The district should implement policies and procedures that would insure compliance with the program income requirements and require cafeteria managers and cashiers to sign all cash collection daily reconciliation reports.

LEE COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

LEE COUNTY SCHOOL DISTRICT

(This page left blank intentionally)

