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LINCOLN COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2008

Charles L. Shivers, CPA
Ridgeland, MS

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FINANCIAL AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lincoln County School District

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

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated July 17, 2009, on my consideration of the Lincoln County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

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

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



Ridgeland, MS
July 17, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$5,129,600, which represents a 21% increase from fiscal year 2007. This increase in net assets is primarily due to the following: 1) capital outlays of \$2,795,796 during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, 2) repayment of debt principal in the amount of \$470,000 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets, 3) an increase in Mississippi Adequate Education Program (MAEP) funds received during the fiscal year, 4) sixteenth section sources generated during the fiscal year primarily from oil and gas royalties, sixteenth section leases, pro rata revenue from other districts and earnings on sixteenth section investments, and 5) a conservative approach to spending during the fiscal year.
- General revenues accounted for \$21,663,063 in revenue, or 85% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,778,141, or 15% of total revenues.
- The District had \$20,311,604 in expenses; only \$3,778,141 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$21,663,063 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,902,608 in revenues and \$15,556,450 in expenditures. This resulted in an excess of revenues over expenditures in the amount of \$2,346,158 due primarily to an increase in Mississippi Adequate Education Program funds received and a conservative approach to spending during the fiscal year. After net other financing uses of \$1,284,351, including a transfer of \$1,250,000 to the 2005 Construction Fund, the net change in fund balance for the General Fund was an increase of \$1,061,807 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$2,141,345 due primarily to the construction of school facilities and other improvements and the purchase of new school buses during the fiscal year.
- Long-term debt decreased by \$473,762 due primarily to principal payments made during the fiscal year on existing long-term debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

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

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

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

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

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

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

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$29,140,094 as of June 30, 2008.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$11,898,116 of the District's net assets (41%) reflects its investment in capital assets (e.g., land,

construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$7,390,695 of the District's net assets (25%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$9,851,283 of the District's net assets (34%) reflects its unrestricted net assets.

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, 2008 and comparative data for the fiscal year ended June 30, 2007.

	Net Assets		Percentage Change
	June 30, 2008	June 30, 2007	
Current assets	\$ 11,175,215	\$ 11,303,310	(1.1) %
Restricted assets	6,369,783	3,742,345	70.2 %
Capital assets, net	<u>18,783,116</u>	<u>16,641,771</u>	12.9 %
Total assets	<u>36,328,114</u>	<u>31,687,426</u>	14.6 %
Current liabilities	183,690	198,840	(7.6) %
Long-term debt outstanding	<u>7,004,330</u>	<u>7,478,092</u>	(6.3) %
Total liabilities	<u>7,188,020</u>	<u>7,676,932</u>	(6.4) %
Net assets:			
Invested in capital assets, net of related debt	11,898,116	9,286,771	28.1 %
Restricted	7,390,695	5,062,407	46.0 %
Unrestricted	<u>9,851,283</u>	<u>9,661,316</u>	2.0 %
Total net assets	<u>\$ 29,140,094</u>	<u>24,010,494</u>	21.4 %

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

- Other assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents in the 16th Section Principal Funds which are reported as restricted assets on the Statement of Net Assets.
- Capital assets increased from the previous fiscal year due primarily to the construction of school facilities and other improvements and the purchase of new school buses and various other items of equipment during the fiscal year.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the increase in capital assets during the fiscal year and the reduction of long-term debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for sixteenth section purposes resulting from the increase in cash and cash equivalents in the 16th Section Principal Funds.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$25,441,204. The total cost of all programs and services was \$20,311,604. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	Change in Net Assets		Percentage Change
	June 30, 2008	June 30, 2007	
Revenues:			
Program revenues:			
Charges for services	\$ 945,393	\$ 990,700	(4.6) %
Operating grants and contributions	2,832,748	2,514,296	12.7 %

General revenues:			
Property taxes	3,506,449	3,705,576	(5.4) %
Grants and contributions not restricted	14,367,027	13,203,669	8.8 %
Other	<u>3,789,587</u>	<u>2,606,827</u>	45.4 %
Total revenues	25,441,204	23,021,068	10.5 %
Expenses:			
Instruction	11,913,779	11,087,452	7.5 %
Support services	6,094,688	5,323,210	14.5 %
Non-instructional	1,393,381	1,261,095	10.5 %
Sixteenth section	598,075	346,135	72.8 %
Interest and other expenses on long-term liabilities	<u>311,681</u>	<u>338,331</u>	(7.9) %
Total expenses	20,311,604	18,356,223	10.7 %
Increase (Decrease) in net assets	5,129,600	4,664,845	10.0 %
Net Assets, July 1	24,010,494	19,345,649	24.1 %
Net Assets, June 30	\$29,140,094	\$ 24,010,494	21.4 %

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions and sixteenth section sources.
- Instruction expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits resulting from a 3% teacher pay raise and an increase in teacher units.
- Support services expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits resulting from a 3% teacher pay raise, an increase in utilities and transportation fuel costs, the purchase of E-rate equipment during the fiscal year and the addition of janitors at each school.
- Sixteenth section expenses increased from the previous fiscal year. The oil distribution from Denbury increased for the fiscal year resulting in an increase in the principal portion of the oil distribution that the District shares with Brookhaven School District.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 11,913,779	\$ (10,109,896)	\$ 11,087,452	\$ (9,483,508)
Support services	6,094,688	(5,535,896)	5,323,210	(4,771,493)
Non-instructional	1,393,381	22,085	1,261,095	88,240
Sixteenth section	598,075	(598,075)	346,135	(346,135)
Interest and other expenses on long-term liabilities	<u>311,681</u>	<u>(311,681)</u>	<u>338,331</u>	<u>(338,331)</u>
Total expenses	\$ 20,311,604	\$ (16,533,463)	\$ 18,356,223	\$ (14,851,227)

- The net cost of governmental activities for fiscal year 2008 in the amount of \$16,533,463 was financed by general revenue, which is made up of primarily property taxes of \$3,506,449 and state revenue of \$14,082,687.

- Investment earnings accounted for \$586,144 of funding.
- Sixteenth section revenue in the amount of \$3,014,992 was generated during the fiscal year primarily from oil and gas royalties, pro rata revenue from other districts and sixteenth section leases.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2008, its governmental funds reported a combined fund balance of \$17,438,170. The net change in fund balance for the fiscal year was an increase of \$2,509,480 due primarily to: 1) an increase in Mississippi Adequate Education Program (MAEP) funds received during the fiscal year, 2) sixteenth section sources generated during the fiscal year primarily from oil and gas royalties, sixteenth section leases, pro rata revenue from other districts and earnings on sixteenth section investments, and 3) a conservative approach to spending during the fiscal year. \$10,167,075, or 58%, of the fund balance is reported by fund type in the unreserved section of the Governmental Funds Balance Sheet. A portion of the unreserved fund balance has been designated and reported in the Capital Projects Funds and is a result of transfers from other governmental funds and will be used for capital improvements. The portion of the unreserved fund balance that is undesignated and reported in the General Fund is available for spending at the District's discretion. The portion of the unreserved fund balance that is undesignated and reported in the Special Revenue Funds will be used for school based activities. The portion of the unreserved fund balance that is undesignated and reported in the Permanent Funds is a result of earnings on sixteenth section investments that have not yet been transferred to other governmental funds but may be transferred in the future. The remaining fund balance of \$7,271,095, or 42%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$1,061,807 due primarily to an increase in MAEP funds received and a conservative approach to spending during the fiscal year. The net change in fund balance for the 16th Section 16-5-9 Interest Fund for the fiscal year was an increase of \$146,864 due primarily to revenue generated from earnings on investments and pro rata revenue from other districts. The net change in fund balance for the 2005 Construction Fund for the fiscal year was a decrease of \$1,026,043 due primarily to expenditures incurred for the construction of school facilities and other improvements. The net change in fund balance for the 16th Section 16-6-8 Principal Fund for the fiscal year was an increase of \$2,174,255 due primarily to revenue generated from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$152,597.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from state sources in the General Fund were increased to reflect the increase in Mississippi Adequate Education Program funds received during the fiscal year. The original budgeted amounts were understated.
- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were decreased due primarily to various renovation and construction projects being delayed until the next fiscal year.
- The budget for the General Fund was amended to reflect insurance loss recoveries resulting from tornado/wind damage to a Loyd Star school building.
- Budgeted amounts for transfers out of the General Fund were increased primarily to reflect the transfer of funds to the 2005 Construction Fund during the fiscal year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets, before depreciation, were \$24,861,987, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$2,520,322 from the previous year. During the fiscal year the District purchased four new school buses and various other items of mobile equipment and furniture and equipment. The District also continued the construction and renovation of school facilities at Enterprise and Bogue Chitto, completed the new high school building project at West Lincoln School and completed other improvements during the fiscal year. The District also disposed of four old school buses, the building that was destroyed at Loyd Star and various other items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$609,655. Total accumulated depreciation as of June 30, 2008 was \$6,078,871, resulting in total net capital assets of \$18,783,116.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 389,901	\$ 354,401	10.0 %
Construction in progress	2,319,868	1,201,301	93.1 %
Buildings	13,177,484	12,360,070	6.6 %
Building improvements	391,118	408,123	(4.2) %
Improvements other than buildings	1,297,140	1,227,176	5.7 %
Mobile equipment	1,053,985	961,405	9.6 %
Furniture and equipment	<u>153,620</u>	<u>129,295</u>	18.8 %
Total	<u>\$18,783,116</u>	<u>\$ 16,641,771</u>	12.9 %

Debt Administration. At June 30, 2008, the District had \$7,004,330 in general and limited obligation bonds and other long-term debt outstanding, of which \$515,967 is due within one year. During the fiscal year, the District made principal payments in the amount of \$470,000 on existing long-term debt.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
General obligation bonds payable	\$ 3,160,000	\$ 3,320,000	(4.8) %
Limited obligation bonds payable	3,485,000	3,725,000	(6.4) %
Certificates of participation payable	240,000	310,000	(22.6) %
Compensated absences payable	<u>119,330</u>	<u>123,092</u>	(3.1) %
Total	<u>\$ 7,004,330</u>	<u>\$ 7,478,092</u>	(6.3) %

CURRENT ISSUES

The Lincoln 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. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Lincoln County School District, P. O. Box 826, Brookhaven, MS 39601.

BASIC FINANCIAL STATEMENTS

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

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 10,289,887
Due from other governments	\$ 833,004
Accrued interest receivable	\$ 116
Other receivables, net	\$ 18,920
Inventories	\$ 33,288
Restricted assets (Note 4)	\$ 6,369,783
Non-depreciable capital assets (Note 5)	\$ 2,709,769
Depreciable capital assets, net (Note 5)	\$ 16,073,347
Total Assets	<u>\$ 36,328,114</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 100,939
Unearned revenue	\$ 5,889
Interest payable on long-term liabilities	\$ 76,862
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	\$ 510,000
Non-capital related liabilities	\$ 5,967
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	\$ 6,375,000
Non-capital related liabilities	\$ 113,363
Total Liabilities	<u>\$ 7,188,020</u>
Net assets	
Investment in capital assets (net of related debt)	\$ 11,898,116
Restricted net assets	
Expendable	
School-based activities	\$ 799,067
Debt service	\$ 399,427
Forestry improvements	\$ 29,423
Unemployment benefits	\$ 59,609
Non-expendable	
Sixteenth section	\$ 6,103,169
Unrestricted	<u>\$ 9,851,283</u>
Total Net Assets	<u>\$ 29,140,094</u>

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

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

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 11,913,779	\$ 365,665	\$ 1,438,218	\$ (10,109,896)
Support services	\$ 6,094,688		\$ 558,792	\$ (5,535,896)
Non-instructional	\$ 1,393,381	\$ 579,728	\$ 835,738	\$ 22,085
Sixteenth section	\$ 598,075			\$ (598,075)
Interest and other expenses on long-term liabilities	\$ 311,681			\$ (311,681)
Total Governmental Activities	\$ 20,311,604	\$ 945,393	\$ 2,832,748	\$ (16,533,463)
General Revenues				
Taxes				
General purpose levies				\$ 3,291,973
Debt purpose levies				\$ 214,476
Unrestricted grants and contributions				
State				\$ 14,082,687
Federal				\$ 284,340
Unrestricted investment earnings				\$ 586,144
Sixteenth section sources				\$ 3,014,992
Other				\$ 188,451
Total General Revenues				\$ 21,663,063
Changes in Net Assets				\$ 5,129,600
Net Assets - Beginning				\$ 24,010,494
Net Assets - Ending				\$ 29,140,094

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

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

Exhibit C

	Major Funds						Total Governmental Funds	
	General Fund	Title I Basic Fund	IDEA Part B Fund	16-5-9 Interest Fund	2005 Construction Fund	16-6-8 Principal Fund		Other Governmental Funds
Assets								
Cash and cash equivalents (Note 2)	\$ 4,138,169			\$ 2,702,444	\$ 2,767,830	\$ 5,885,897	\$ 1,011,817	\$ 16,506,157
Investments (Note 2)							\$ 153,513	\$ 153,513
Due from other governments	\$ 398,899	\$ 18,475	\$ 19,365	\$ 1,447			\$ 394,353	\$ 832,339
Accrued interest receivable							\$ 116	\$ 116
Other receivables, net							\$ 18,920	\$ 18,920
Due from other funds (Note 3)	\$ 41,623						\$ 41,623	\$ 41,623
Inventories							\$ 33,288	\$ 33,288
Total Assets	\$ 4,578,691	\$ 18,475	\$ 19,365	\$ 2,703,891	\$ 2,767,830	\$ 5,885,897	\$ 1,612,007	\$ 17,586,156
Liabilities and Fund Balances								
Liabilities								
Accounts payable & accrued liabilities	\$ 38,848				\$ 61,454		\$ 637	\$ 100,939
Due to other funds (Note 3)		\$ 18,475	\$ 19,365				\$ 3,318	\$ 41,158
Unearned revenue							\$ 5,889	\$ 5,889
Total Liabilities	\$ 38,848	\$ 18,475	\$ 19,365	\$ -	\$ 61,454	\$ -	\$ 9,844	\$ 147,986
Fund Balances								
Reserved for								
Debt service purposes							\$ 476,289	\$ 476,289
Permanent fund purposes						\$ 5,877,785	\$ 225,384	\$ 6,103,169
Unemployment benefits							\$ 59,609	\$ 59,609
Forestry improvements							\$ 29,423	\$ 29,423
Inventory							\$ 33,288	\$ 33,288
Contractual commitments					\$ 569,317			\$ 569,317
Unreserved								
Designated, reported in								
Capital projects funds					\$ 2,137,059			\$ 2,137,059
Undesignated, reported in								
General fund	\$ 4,539,843			\$ 2,703,891		\$ 8,112	\$ 765,779	\$ 4,539,843
Special revenue funds							\$ 12,391	\$ 3,469,670
Permanent funds								\$ 20,503
Total Fund Balances	\$ 4,539,843	\$ -	\$ -	\$ 2,703,891	\$ 2,706,376	\$ 5,885,897	\$ 1,602,163	\$ 17,438,170
Total Liabilities and Fund Balances	\$ 4,578,691	\$ 18,475	\$ 19,365	\$ 2,703,891	\$ 2,767,830	\$ 5,885,897	\$ 1,612,007	\$ 17,586,156

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

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

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 17,438,170
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of \$6,078,871.	\$ 18,783,116
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.	\$ (7,004,330)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	<u>\$ (76,862)</u>
Total net assets - governmental activities	<u>\$ 29,140,094</u>

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

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

Exhibit D

	Major Funds						Total Governmental Funds	
	General Fund	Title I Basic Fund	IDEA Part B Fund	16-5-9 Interest Fund	2005 Construction Fund	16-6-8 Principal Fund		Other Governmental Funds
Revenues								
Local sources	\$ 3,884,031	\$ 700			\$ 138,968		\$ 793,433	\$ 4,817,132
State sources	\$ 13,734,155						\$ 710,137	\$ 14,444,292
Federal sources	\$ 284,422	\$ 640,153	\$ 604,133	\$ 101,891		\$ 2,881,911	\$ 1,226,774	\$ 2,755,482
Sixteenth section sources							\$ 298,502	\$ 3,282,304
Total Revenues	\$ 17,902,608	\$ 640,853	\$ 604,133	\$ 101,891	\$ 138,968	\$ 2,881,911	\$ 3,028,846	\$ 25,299,210
Expenditures								
Instruction	\$ 9,861,753	\$ 518,854	\$ 261,962				\$ 944,150	\$ 11,586,719
Support services	\$ 5,572,898	\$ 103,197	\$ 325,171				\$ 153,120	\$ 6,154,386
Noninstructional services	\$ 71,938	\$ 1,802					\$ 1,284,896	\$ 1,358,636
Sixteenth section	\$ 14,362					\$ 540,893	\$ 42,820	\$ 598,075
Facilities acquisition and construction	\$ 35,499				\$ 2,415,011			\$ 2,450,510
Debt service								
Principal (Note 6)							\$ 470,000	\$ 470,000
Interest							\$ 314,295	\$ 314,295
Other							\$ 2,399	\$ 2,399
Total Expenditures	\$ 15,556,450	\$ 623,853	\$ 587,133	\$ -	\$ 2,415,011	\$ 540,893	\$ 3,211,680	\$ 22,935,020
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,346,158	\$ 17,000	\$ 17,000	\$ 101,891	\$ (2,276,043)	\$ 2,341,018	\$ (182,834)	\$ 2,364,190
Other Financing Sources (Uses)								
Insurances loss recoveries	\$ 141,993							\$ 141,993
Sale of transportation equipment	\$ 3,157							\$ 3,157
Sale of other property	\$ 101							\$ 101
Operating transfers in (Note 3)	\$ 262,030			\$ 44,973	\$ 1,250,000		\$ 441,632	\$ 1,998,635
Operating transfers out (Note 3)	\$ (1,691,632)	\$ (17,000)	\$ (17,000)			\$ (166,763)	\$ (106,240)	\$ (1,998,635)
Total Other Financing Sources (Uses)	\$ (1,284,351)	\$ (17,000)	\$ (17,000)	\$ 44,973	\$ 1,250,000	\$ (166,763)	\$ 335,392	\$ 145,251
Net Change in Fund Balances	\$ 1,061,807	\$ -	\$ -	\$ 146,864	\$ (1,026,043)	\$ 2,174,255	\$ 152,558	\$ 2,509,441
Fund Balances								
July 1, 2007	\$ 3,478,036	\$ -	\$ -	\$ 2,557,027	\$ 3,732,419	\$ 3,711,642	\$ 1,449,566	\$ 14,928,690
Increase in reserve for inventory							\$ 39	\$ 39
June 30, 2008	\$ 4,539,843	\$ -	\$ -	\$ 2,703,891	\$ 2,706,376	\$ 5,885,897	\$ 1,602,163	\$ 17,438,170

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

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

Exhibit D-1

	<u>Amount</u>
Net change in fund balance - governmental funds	\$ 2,509,441
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$2,795,796 and the depreciation expense amounted to \$609,655.	\$ 2,186,141
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.	\$ 470,000
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	\$ 3,762
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.	\$ (44,796)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	\$ 5,013
The governmental funds reported an increase in reserve for inventory while the transaction is not reported in the statement of activities.	\$ 39
Changes in net assets of governmental activities	<u>\$ 5,129,600</u>

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

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

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 1,077,957
Total Assets	<u>\$ 1,077,957</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,015,608
Due to other funds (Note 3)	\$ 465
Due to student clubs	<u>\$ 61,884</u>
Total Liabilities	<u>\$ 1,077,957</u>

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

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Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

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

Blended component unit.

The Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

B. Basis of Presentation.

Government-wide Financial Statements:

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

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

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

which can be removed or modified.

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

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

Title I Basic Fund – This special revenue fund is financed with federal funds and is used to account for expenditures associated with educationally deprived children.

IDEA Part B Fund – This special revenue fund is financed with federal funds and is used to account for expenditures associated with children with disabilities.

16-5-9 Interest Fund – This fund is used to account for the expendable financial resources generated from the use of sixteenth section trust lands. Available funds may be transferred to the General Fund or Construction Funds and may be used for appropriate purposes.

2005 Construction Fund – This fund is used to account for capital expenditures which are financed by transfers from the General Fund.

16-6-8 Principal Fund – This fund is used to account for the sale of non-renewable resources (oil, gas, gravel, sand, etc.) on sixteenth section lands. The use of the fund is limited to providing advances to the General Fund or Capital Projects Fund to finance capital expenditures. State law requires any funds on hand to be invested. Interest income may be transferred to the General Fund.

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

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

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

GOVERNMENTAL FUND TYPES

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

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

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

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

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

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

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

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

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

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Assets, liabilities, and net assets or equity

1. Cash, Cash Equivalents and Investments.

Cash and Cash Equivalents.

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

Investments.

The school district can invest its excess funds, 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.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

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

3. Due from Other Governments.

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

4. Inventories and Prepaid Items.

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

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

5. Restricted Assets.

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

6. Capital Assets.

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

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

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

	<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.

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

7. Compensated Absences.

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

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

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

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

9. Fund Equity.

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

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

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

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

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

Reserved for forestry improvement purposes – An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

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.

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Reserved for contractual commitments – An account that represents that portion of the fund balance which is legally restricted by approved construction / renovation contracts and is not available for spending for any other purpose than that for which it is restricted.

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

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

(2) Cash and Cash Equivalents and Investments.

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$16,506,157 and \$1,077,957, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$10,289,887. The bank balance was \$19,267,191. See Note 4 for the cash balances contained in the Restricted Net Assets account.

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

Investments.

As of June 30, 2008, the district had the following investments.

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Investment Type	Maturities (in years)	Fair Value	Rating
Money Market Fund	Less than one year	\$ 153,513	AAAm

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2008, the district did not have any investments to which this would apply.

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

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

Receivable Fund	Payable Fund	Amount
General Fund	Major fund – Title I Basic	\$ 18,475
	Major fund – IDEA Part B	\$ 19,365
	Other governmental funds	\$ 3,318
	Fiduciary funds	\$ 465
Total		<u>\$ 41,623</u>

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

B. Interfund Transfers.

Transfer Out	Transfer In	Amount
General Fund	Major fund – 2005 Construction Fund	\$ 1,250,000
	Other governmental funds	441,632
Major fund – Title I Basic Fund	General Fund	17,000
Major fund – IDEA Part B Fund	General Fund	17,000
Major fund – 16-6-8 Principal Fund	General Fund	121,790
	Major fund – 16-5-9 Interest Fund	44,973
Other governmental funds	General Fund	106,240
Total		<u>\$ 1,998,635</u>

The transfer out of the General Fund was for the purpose of funding the vocational program in the Other Governmental Funds and the 2005 Construction Fund. The transfer from the Title I Basic Fund and the IDEA Part B Fund was for indirect cost. The transfer from the 16-6-8 Principal Fund was for accumulated interest which is available for expenditures of the district.

(4) Restricted Assets.

The restricted assets represent the cash balance of the 16th section principal funds, debt service fund and

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

certain other special funds totaling \$6,216,270 and the investment balance of the MAEP Debt Service Fund totaling \$153,513 for a total of \$6,369,783.

(5) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Completed Construction	Balance 6-30-2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 354,401	\$ 35,500			\$ 389,901
Construction in progress	\$ 1,201,301	\$ 2,284,766		\$ (1,166,199)	\$ 2,319,868
Total non-depreciable capital assets	\$ 1,555,702	\$ 2,320,266	\$ 0	\$ (1,166,199)	\$ 2,709,769
<u>Depreciable capital assets:</u>					
Buildings	\$ 15,869,507		\$ 67,716	\$ 1,166,199	\$ 16,967,990
Building improvements	\$ 425,128				\$ 425,128
Improvements other than buildings	\$ 1,548,831	\$ 130,244			\$ 1,679,075
Mobile equipment	\$ 2,235,372	\$ 270,046	\$ 173,694		\$ 2,331,724
Furniture and equipment	\$ 707,125	\$ 75,240	\$ 34,064		\$ 748,301
Total depreciable capital assets	\$ 20,785,963	\$ 475,530	\$ 275,474	\$ 1,166,199	\$ 22,152,218
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 3,509,437	\$ 321,699	\$ 40,630		\$ 3,790,506
Building improvements	\$ 17,005	\$ 17,005			\$ 34,010
Improvements other than buildings	\$ 321,655	\$ 60,280			\$ 381,935
Mobile equipment	\$ 1,273,967	\$ 160,096	\$ 156,324		\$ 1,277,739
Furniture and equipment	\$ 577,830	\$ 50,575	\$ 33,724		\$ 594,681
Total depreciation	\$ 5,699,894	\$ 609,655	\$ 230,678	\$ 0	\$ 6,078,871
Total depreciable capital assets, net	\$ 15,086,069	\$ (134,125)	\$ 44,796	\$ 1,166,199	\$ 16,073,347
Governmental activities capital assets, net	\$ 16,641,771	\$ 2,186,141	\$ 44,796	\$ 0	\$ 18,783,116

Depreciation expense was charged to the following governmental functions:

Governmental activities:	Amount
Instruction	\$ 344,377
Support services	\$ 203,772
Non-instructional	\$ 61,506
Total Depreciation Expense	\$ 609,655

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

Governmental Activities	Spent to June 30, 2008	Remaining Commitment
Enterprise New Elementary Building	\$ 1,938,446	\$ 108,008
Bogue Chitto Attendance Center	\$ 381,422	\$ 461,309
Total	\$ 2,319,868	\$ 569,317

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Construction projects included in governmental activities are funded with local funds expended and accounted for in the 2005 Construction Fund.

(6) Long-term Liabilities.

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

	Balance 7-1-2007	Additions	Reductions	Balance 6-30-2008	Amounts due within one year
A. General obligation bonds payable	\$ 3,320,000		\$ 160,000	\$ 3,160,000	\$ 175,000
B. Limited obligation bonds payable	\$ 3,725,000		\$ 240,000	\$ 3,485,000	\$ 260,000
C. Certificates of participation payable	\$ 310,000		\$ 70,000	\$ 240,000	\$ 75,000
D. Compensated absences payable	\$ 123,092		\$ 3,762	\$ 119,330	\$ 5,967
Total	\$ 7,478,092	\$ 0	\$ 473,762	\$ 7,004,330	\$ 515,967

The district has pledged state appropriations for EEF School Buildings and Buses in the amount of \$92,860. The purpose of the pledge is to repay certificates of participation of the district. The pledge will remain in effect through 2012. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements for the debt.

The district has pledged state appropriations for Mississippi Adequate Education Program in the amount of \$414,566. The purpose of the pledge is to repay limited obligation bonds of the district. The pledge will remain in effect through 2018. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements for the debt.

A. General obligation bonds payable.

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

Description	Interest Rate(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, series 2002	3.5 to 5.6	12-1-02	6-1-20	\$ 3,800,000	\$ 3,160,000

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 175,000	\$ 131,006	\$ 306,006
2010	\$ 190,000	\$ 124,442	\$ 314,442
2011	\$ 205,000	\$ 117,318	\$ 322,318
2012	\$ 220,000	\$ 109,528	\$ 329,528
2013	\$ 240,000	\$ 101,388	\$ 341,388
2014 – 2018	\$ 1,440,000	\$ 351,812	\$ 1,791,812
2019 – 2020	\$ 690,000	\$ 47,890	\$ 737,890
Total	\$ 3,160,000	\$ 983,384	\$ 4,143,384

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

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 4.0% of property assessments as of October 1, 2007.

B. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds	4.2 to 6.0	3-1-98	2-1-18	\$ 5,200,000	\$ 3,485,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 260,000	\$ 151,254	\$ 411,254
2010	\$ 260,000	\$ 140,074	\$ 400,074
2011	\$ 270,000	\$ 128,544	\$ 398,544
2012	\$ 285,000	\$ 116,195	\$ 401,195
2013	\$ 300,000	\$ 103,030	\$ 403,030
2014 – 2018	\$ 2,110,000	\$ 294,872	\$ 2,404,872
Total	<u>\$ 3,485,000</u>	<u>\$ 933,969</u>	<u>\$ 4,418,969</u>

This debt will be retired from the MAEP Long Term Pledge Fund (Debt Service Fund).

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

C. Certificates of participation payable.

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation 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>
Certificates of participation, series 1998	4.95	6-1-98	6-1-12	\$ 2,000,000	\$ 240,000

Details of the district's June 30, 2008 certificates of participation are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	\$ 11,880	\$ 86,880
2010	\$ 75,000	\$ 8,168	\$ 83,168
2011	\$ 80,000	\$ 4,455	\$ 84,455
2012	\$ 10,000	\$ 4,940	\$ 14,940
Total	<u>\$ 240,000</u>	<u>\$ 29,443</u>	<u>\$ 269,443</u>

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

This debt will be retired from the EEF Building and Bus Fund (Special Revenue Fund).

D. Compensated absences payable.

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

(7) Other Commitments.

Commitments under construction contracts are described in Note 5.

Operating leases:

The school district has several operating leases for the following:

1. 3 Canon IK 5000 Copiers.
2. 1 Canon IR Copier.

Lease expenditures for the year ended June 30, 2008, amounted to \$10,020. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2009	\$ 9,330
2010	\$ 1,815
Total	<u>\$ 11,145</u>

(8) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$1,233,405, \$1,095,784 and \$951,410, respectively, which equaled the required contributions for each year.

(9) Sixteenth Section Lands.

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

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Year Ending June 30	Amount
2009	\$ 65,510
2010	\$ 47,591
2011	\$ 36,263
2012	\$ 35,665
2013	\$ 19,331
2014 – 2018	\$ 63,608
2019 – 2023	\$ 30,571
2024 – 2028	\$ 24,483
2029 – 2033	\$ 15,677
Thereafter	\$ 4,530
Total	<u>\$ 343,229</u>

(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. Except as described below, 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.

Participation in Public Entity Risk Pool.

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 95 school districts and one community college and covers risks of loss arising from injuries to the member'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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. 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.

(11) Trust Certificates.

A trust agreement dated June 1, 1998, was executed by and between the school district and Trustmark National Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,000,000. Approximately \$1,992,663 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$7,337 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Lincoln County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 3,736,025	\$ 3,922,567	\$ 3,884,031	\$ 186,542	\$ (38,536)
State sources	\$ 13,225,143	\$ 13,734,155	\$ 13,734,155	\$ 509,012	\$ -
Federal sources	\$ 278,496	\$ 284,422	\$ 284,422	\$ 5,926	\$ -
Total revenues	\$ 17,239,664	\$ 17,941,144	\$ 17,902,608	\$ 701,480	\$ (38,536)
Expenditures					
Instruction	\$ 10,623,904	\$ 10,710,478	\$ 9,861,753	\$ (86,574)	\$ 848,725
Support services	\$ 6,047,690	\$ 6,047,062	\$ 5,572,898	\$ 628	\$ 474,164
Noninstructional services	\$ 71,902	\$ 78,117	\$ 71,938	\$ (6,215)	\$ 6,179
Sixteenth section	\$ 14,288	\$ 14,398	\$ 14,362	\$ (110)	\$ 36
Facilities acquisition and construction	\$ 485,125	\$ 270,729	\$ 35,499	\$ 214,396	\$ 235,230
Total expenditures	\$ 17,242,909	\$ 17,120,784	\$ 15,556,450	\$ 122,125	\$ 1,564,334
Excess (deficiency) of revenues over expenditures	\$ (3,245)	\$ 820,360	\$ 2,346,158	\$ 823,605	\$ 1,525,798
Other Financing Sources and Uses					
Insurance loss recoveries	\$ -	\$ 141,993	\$ 141,993	\$ 141,993	\$ -
Sale of transportation equipment	\$ -	\$ 3,157	\$ 3,157	\$ 3,157	\$ -
Sale of other property	\$ -	\$ 101	\$ 101	\$ 101	\$ -
Transfers in	\$ 1,834,372	\$ 2,072,760	\$ 262,030	\$ 238,388	\$ (1,810,730)
Transfers out	\$ (1,961,827)	\$ (3,578,914)	\$ (1,691,632)	\$ (1,617,087)	\$ 1,887,282
Total other financing sources and uses	\$ (127,455)	\$ (1,360,903)	\$ (1,284,351)	\$ (1,233,448)	\$ 76,552
Net change in fund balances	\$ (130,700)	\$ (540,543)	\$ 1,061,807	\$ (409,843)	\$ 1,602,350
Fund balances:					
July 1, 2007			\$ 3,478,036		
June 30, 2008			\$ 4,539,843		

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I Basic Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ -	\$ 700	\$ 700	\$ 700	\$ -
Federal sources	\$ 820,416	\$ 843,377	\$ 640,153	\$ 22,961	\$ (203,224)
Total revenues	\$ 820,416	\$ 844,077	\$ 640,853	\$ 23,661	\$ (203,224)
Expenditures					
Instruction	\$ 638,489	\$ 661,813	\$ 518,854	\$ (23,324)	\$ 142,959
Support services	\$ 159,322	\$ 159,659	\$ 103,197	\$ (337)	\$ 56,462
Noninstructional services	\$ 5,605	\$ 5,605	\$ 1,802	\$ -	\$ 3,803
Total expenditures	\$ 803,416	\$ 827,077	\$ 623,853	\$ (23,661)	\$ 203,224
Excess (deficiency) of revenues over expenditures	\$ 17,000	\$ 17,000	\$ 17,000	\$ -	\$ -
Other Financing Sources and Uses					
Transfers out	\$ (17,000)	\$ (17,000)	\$ (17,000)	\$ -	\$ -
Total other financing sources and uses	\$ (17,000)	\$ (17,000)	\$ (17,000)	\$ -	\$ -
Net change in fund balances	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances:					
July 1, 2007			\$ -		
June 30, 2008			\$ -		

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

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	\$ 1,078,156	\$ 1,083,294	\$ 604,133	\$ 5,138	\$ (479,161)
Total revenues	\$ 1,078,156	\$ 1,083,294	\$ 604,133	\$ 5,138	\$ (479,161)
Expenditures					
Instruction	\$ 519,892	\$ 491,681	\$ 261,962	\$ 28,211	\$ 229,719
Support services	\$ 558,264	\$ 574,613	\$ 325,171	\$ (16,349)	\$ 249,442
Total expenditures	\$ 1,078,156	\$ 1,066,294	\$ 587,133	\$ 11,862	\$ 479,161
Excess (deficiency) of revenues over expenditures	\$ -	\$ 17,000	\$ 17,000	\$ 17,000	\$ -
Other Financing Sources and Uses					
Transfers out	\$ -	\$ (17,000)	\$ (17,000)	\$ (17,000)	\$ -
Total other financing sources and uses	\$ -	\$ (17,000)	\$ (17,000)	\$ (17,000)	\$ -
Net change in fund balances	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances:					
July 1, 2007			\$ -		
June 30, 2008			\$ -		

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

Lincoln County School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - 16-5-9 Interest Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues					
Sixteenth section sources	\$ 98,855	\$ 109,237	\$ 101,891	\$ 10,382	\$ (7,346)
Total revenues	\$ 98,855	\$ 109,237	\$ 101,891	\$ 10,382	\$ (7,346)
Expenditures					
Sixteenth section	\$ 500	\$ 500	\$ -	\$ -	\$ 500
Total expenditures	\$ 500	\$ 500	\$ -	\$ -	\$ 500
Excess (deficiency) of revenues over expenditures	\$ 98,355	\$ 108,737	\$ 101,891	\$ 10,382	\$ (6,846)
Other Financing Sources and Uses					
Transfers in	\$ 291,826	\$ 292,069	\$ 44,973	\$ 243	\$ (247,096)
Total other financing sources and uses	\$ 291,826	\$ 292,069	\$ 44,973	\$ 243	\$ (247,096)
Net change in fund balances	\$ 390,181	\$ 400,806	\$ 146,864	\$ 10,625	\$ (253,942)
Fund balances:					
July 1, 2007			\$ 2,557,027		
June 30, 2008			\$ 2,703,891		

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

Lincoln County School District
Notes to the Required Supplemental Information
For the Year Ended June 30, 2008

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

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SUPPLEMENTARY INFORMATION

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Lincoln County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 401,192
National school lunch program	10.555	\$ 1,081,911
Total child nutrition cluster		\$ 1,483,103
Total U.S. Department of Agriculture		\$ 1,483,103
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	\$ 256,990
Total Federal Communications Commission		\$ 256,990
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	\$ 640,853
Career and technical education - basic grants to states	84.048	\$ 26,836
Safe and drug-free schools and communities - state grants	84.186	\$ 8,036
State grants for innovative programs	84.298	\$ 4,029
Education technology - state grants	84.318	\$ 238
Rural education	84.358	\$ 77,360
Improving teacher quality – state grants	84.367	\$ 177,392
Total		\$ 934,744
Special education cluster:		
Special education - grants to states	84.027	\$ 610,149
Special education - preschool grants	84.173	\$ 11,293
Total		\$ 621,442
Total passed-through Mississippi Department of Education		\$ 1,556,186
Total U.S. Department of Education		\$ 1,556,186
Total for All Federal Awards		\$ 3,296,279

NOTES TO SCHEDULE

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

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 14,303,254	\$ 11,326,826	\$ 669,263	\$ 789,838	\$ 1,517,327
Other	\$ 8,631,766	\$ 1,496,965	\$ 246,520	\$ 38,747	\$ 6,849,534
Total	\$ 22,935,020	\$ 12,823,791	\$ 915,783	\$ 828,585	\$ 8,366,861
Total number of students	<u>2,860</u>				
Cost per student	<u>\$ 8,019</u>	<u>\$ 4,484</u>	<u>\$ 320</u>	<u>\$ 290</u>	<u>\$ 2,925</u>

Notes to the schedule.

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

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

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	\$ 3,884,031	\$ 3,942,082	\$ 3,739,171	\$ 3,588,707
State sources	\$ 13,734,155	\$ 12,514,246	\$ 12,027,993	\$ 11,071,115
Federal sources	\$ 284,422	\$ 114,584	\$ 101,607	\$ 111,835
Total Revenues	\$ 17,902,608	\$ 16,570,912	\$ 15,868,771	\$ 14,771,657
Expenditures				
Instruction	\$ 9,861,753	\$ 9,232,821	\$ 9,342,254	\$ 9,106,826
Support services	\$ 5,572,898	\$ 4,782,382	\$ 4,554,447	\$ 4,238,614
Noninstructional services	\$ 71,938	\$ 66,524	\$ 114,285	\$ 105,359
Sixteenth section	\$ 14,362	\$ 13,492	\$ -	\$ -
Facilities acquisition and construction	\$ 35,499	\$ 49,858	\$ 88,168	\$ 264,535
Total Expenditures	\$ 15,556,450	\$ 14,145,077	\$ 14,099,154	\$ 13,715,334
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,346,158	\$ 2,425,835	\$ 1,769,617	\$ 1,056,323
Other Financing Sources (Uses)				
Insurances loss recoveries	\$ 141,993	\$ -	\$ -	\$ 75,000
Sale of transportation equipment	\$ 3,157	\$ 4,368	\$ 1,996	\$ 966
Sale of other property	\$ 101	\$ -	\$ 1,100	\$ 7,075
Operating transfers in	\$ 262,030	\$ 566,186	\$ 326,738	\$ 1,358,244
Operating transfers out	\$ (1,691,632)	\$ (2,135,844)	\$ (2,175,514)	\$ (3,249,336)
Total Other Financing Sources (Uses)	\$ (1,284,351)	\$ (1,565,290)	\$ (1,845,680)	\$ (1,808,051)
Net Change in Fund Balances	\$ 1,061,807	\$ 860,545	\$ (76,063)	\$ (751,728)
Fund Balances				
July 1	\$ 3,478,036	\$ 2,617,491	\$ 2,693,554	\$ 3,445,282
June 30	<u>\$ 4,539,843</u>	<u>\$ 3,478,036</u>	<u>\$ 2,617,491</u>	<u>\$ 2,693,554</u>

* Source - Prior year audit reports.

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

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	\$ 4,817,132	\$ 5,090,962	\$ 4,815,584	\$ 4,687,300
State sources	\$ 14,444,292	\$ 13,439,466	\$ 12,745,490	\$ 11,772,895
Federal sources	\$ 2,755,482	\$ 2,278,499	\$ 2,470,350	\$ 2,256,947
Sixteenth section sources	\$ 3,282,304	\$ 2,212,141	\$ 2,346,282	\$ 793,396
Total Revenues	\$ 25,299,210	\$ 23,021,068	\$ 22,377,706	\$ 19,510,538
Expenditures				
Instruction	\$ 11,586,719	\$ 10,816,716	\$ 11,140,936	\$ 10,536,121
Support services	\$ 6,154,386	\$ 5,309,255	\$ 5,089,552	\$ 4,884,537
Noninstructional services	\$ 1,358,636	\$ 1,235,958	\$ 1,190,134	\$ 1,198,129
Sixteenth section	\$ 598,075	\$ 346,135	\$ 426,604	\$ 204,994
Facilities acquisition and construction	\$ 2,450,510	\$ 874,787	\$ 1,480,547	\$ 294,490
Debt service				
Principal	\$ 470,000	\$ 660,000	\$ 668,300	\$ 620,351
Interest	\$ 314,295	\$ 342,953	\$ 374,640	\$ 405,992
Other	\$ 2,399	\$ 2,385	\$ 2,957	\$ 2,977
Total Expenditures	\$ 22,935,020	\$ 19,588,189	\$ 20,373,670	\$ 18,147,591
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,364,190	\$ 3,432,879	\$ 2,004,036	\$ 1,362,947
Other Financing Sources (Uses)				
Insurances loss recoveries	\$ 141,993	\$ -	\$ 640,860	\$ 729,526
Sale of transportation equipment	\$ 3,157	\$ 4,368	\$ 1,996	\$ 966
Sale of other property	\$ 101	\$ -	\$ 1,100	\$ 7,075
Operating transfers in	\$ 1,998,635	\$ 2,416,230	\$ 3,173,002	\$ 3,418,491
Operating transfers out	\$ (1,998,635)	\$ (2,416,230)	\$ (3,173,002)	\$ (3,418,491)
Other financing uses	\$ -	\$ -	\$ (71)	\$ -
Total Other Financing Sources (Uses)	\$ 145,251	\$ 4,368	\$ 643,885	\$ 737,567
Net Change in Fund Balances	\$ 2,509,441	\$ 3,437,247	\$ 2,647,921	\$ 2,100,514
Fund Balances				
July 1	\$ 14,928,690	\$ 11,476,693	\$ 8,833,067	\$ 6,744,978
Increase (Decrease) in reserve for inventory	\$ 39	\$ 14,750	\$ (4,295)	\$ (12,425)
June 30	\$ 17,438,170	\$ 14,928,690	\$ 11,476,693	\$ 8,833,067

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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CHARLES L. SHIVERS

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

Superintendent and School Board
Lincoln County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2008, which collectively comprise the district's basic financial statements and have issued my report thereon dated July 17, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the school district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Finding 2008-01, 2008-02, 2008-03, 2008-04 and 2008-05.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted immaterial noncompliance or other matters that I have reported to management in a separate letter dated July 17, 2009, which is included in this report.

The school district's responses to the findings identified in my audit are described in the accompanying Auditee's Correction Action Plan. I did not audit the school district's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of the district's 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.



Ridgeland, MS
July 17, 2009

CHARLES L. SHIVERS

Certified Public Accountant

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

Superintendent and School Board
Lincoln County School District

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of the district's school board and management, 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.



Ridgeland, MS
July 17, 2009

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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CHARLES L. SHIVERS

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REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Lincoln County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2008, which collectively comprise Lincoln County School District's basic financial statements and have issued my report thereon dated July 17, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the Auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds."

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion. The district reported \$566 of classroom supply funds carried over from previous years.

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

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion.

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

The results of procedures performed to test compliance with certain other laws and regulations as required by the state legal compliance audit program prescribed by the Office of the Mississippi State Auditor and my audit of the basic financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. My finding and recommendation and your response is as follows:

Finding:

The district failed to comply with the Public Employees Retirement System (PERS) requirements for the hiring of one independent contractor that is a PERS retiree. Neither the district nor the retiree completed the required documentation for submission to PERS for a determination as to whether the retiree be classified as an independent contractor or an employee.

Recommendation:

As indicated by the State Auditor's legal compliance program, it is recommended that the district and the retiree complete the required documentation and submit such to PERS for a determination as to whether the retiree be classified as an independent contractor or an employee.

Response:

The District concurs and has submitted the necessary form to the Public Employees Retirement System. We would like to point out that since fiscal year 2009 has been completed, the form submitted was for fiscal year 2010.

For the remaining items tested for compliance with other state laws and regulations as required by the state legal compliance audit program prescribed by the Office of the Mississippi State Auditor and my audit of the basic financial statements, nothing came to my attention to indicate that the district did not comply with the items tested.

I did not audit the school district's response and, accordingly, I express no opinion on it.

The Office of the Mississippi 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.

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.



Ridgeland, MS
July 17, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Lincoln County School District
 Schedule of Findings and Questioned Costs
 June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

Section 2: Financial Statement Findings

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

Finding 2008-01.

CONDITION: A high school bookkeeper performed all duties regarding the receipt of activity funds (receipted the funds, entered data into the accounting system and prepared the deposit slip).

CRITERIA: A well designed system of accounting controls for the receipt of activity funds would be such that no one individual performs all aspects of the transaction from beginning to end.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This situation could result in errors occurring in receipt of activity fund transactions (posting, deposits, etc) and those errors not being prevented or detected.

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

Finding 2008-02.

CONDITION: The accounts payable clerk and the payroll clerk process and prepare claims and payroll for

Lincoln County School District
Schedule of Findings and Questioned Costs
June 30, 2008

payment. Once the checks are processed, each clerk will acquire the superintendent's signature stamp from the superintendent's secretary and stamp the signature on their respective checks.

CRITERIA: A well designed system of accounting controls would have someone other than the accounts payable clerk or payroll clerk stamping the superintendent's signature on the checks.

CAUSE OF CONDITION: The cause of this condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in the payment of unauthorized claims or payroll.

RECOMMENDATION: It is recommended that someone other than the accounts payable clerk or payroll clerk stamp the signature of the superintendent on the processed checks.

Finding 2008-03.

CONDITION: Blank checks for payroll and claims payable were not properly secured.

CRITERIA: A well designed system of accounting controls would have blank checks stored in secured (locked) locations with access only available to limited personnel.

CAUSE OF CONDITION: The cause of this condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in unaccounted for checks or stolen checks with the possibility of intentional misuse.

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

Finding 2008-04.

CONDITION: The business manager prepares, approves, enters and reviews all general journal entries.

CRITERIA: Good accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: The cause of this condition is due to an inadequately designed system of accounting controls.

EFFECT OF CONDITION: This condition could lead to errors in preparing and/or entering general journal entries.

RECOMMENDATION: It is recommended that the process of preparing, approving, entering and reviewing general journal entries be segregated to the greatest extent possible.

Finding 2008-05.

CONDITION: The business manager codes the transaction, enters data into the accounting system, prepares and makes the bank deposit for ad valorem tax receipts and 16th section income received in the central office.

CRITERIA: A well designed system of accounting controls regarding these transactions would be such that no one individual performs all aspects of the transaction as indicated.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This situation could result in errors occurring regarding these transactions (posting, deposits, etc) and those errors not being prevented or detected.

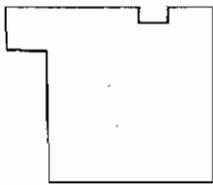
RECOMMENDATION: It is recommended that the duties surrounding these transactions be segregated to the greatest extent possible such that no one individual performs the mentioned aspects of these transactions.

Section 3: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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Lincoln County School District

Terry Brister, Superintendent of Education

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P. O. Box 826

233 East Monticello Street

Brookhaven, Mississippi 39602-0826

July 17, 2009

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

Finding 2008-01

Corrective Action Plan

- a. Cheryl Shelby
- b. Enhancements to the current system will be made such as having a second secretary prepare the deposit slip. Policy has always been that the principals are required to take the deposit to the bank. However, we feel that our current system of the bookkeeper coding the receipt and entering the receipt into the accounting software is the most efficient system to prevent coding errors from occurring so no changes to this portion of the system will be made.
- c. Since fiscal year 2009 was completed prior to the FY 08 findings being received, corrective action will be in place for the 2010 year.

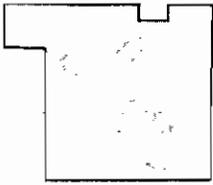
Finding 2008-02

- a. Cheryl Shelby
- b. Check logs for both accounts payable and payroll checks have been implemented. In addition, neither the accounts payable nor the payroll clerk will use the signature stamp to stamp checks that were printed by them. Checks after printing will be stamped by a second party.
- c. Since fiscal year 2009 was completed prior to the FY 08 findings being received, corrective action will be in place for the 2010 year.

Finding 2008-03

- a. Cheryl Shelby
- b. A lockable storage cabinet is being purchased to secure the accounts payable and payroll checks. Key will be maintained by the business manager.
- c. Storage cabinet is on order and we anticipate it being delivered prior to the end of August, 2009.

"In Pursuit of Excellence"



Lincoln County School District

Terry Brister, Superintendent of Education

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Brookhaven, Mississippi 39602-0826

Finding 2008—04

- a. Cheryl Shelby
- b. This finding insinuates that having a second party prepare, approve and/or enter journal entries would prevent errors in preparing and / or entering said general journal entries from occurring. It is our contention that having personnel that are not accountants involved in the general journal process would, in fact, increase the likelihood that errors will occur. Therefore no changes to this part of the system will be implemented. We hire a contractor who works with us in the GASB 34 conversion process and feel that her review of our financial statements adequately offsets any perceived design deficiencies.
- c. No corrective action taken.

Finding 2008-05

- a. Cheryl Shelby
- b. A part-time accounting student has been hired to enter the receipts into the accounting system.
- c. July, 2009.

Sincerely,

Superintendent of Education

"In Pursuit of Excellence"