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LINCOLN COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2012

LINCOLN COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lincoln County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2012, 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. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013 on our consideration of the Lincoln County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

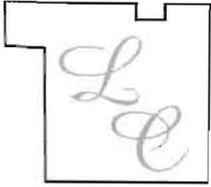
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln County School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General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



Lowery, Payn, and Leggett
Certified Public Accountants

April 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



Lincoln County School District

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The following discussion and analysis of Lincoln County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2012 increased \$3,650,866, which represents a 9% increase from fiscal year 2011. Total net assets for 2011 increased \$3,669,486, which represents a 9% increase from fiscal year 2010.
- General revenues amounted to \$20,573,928 and \$19,810,891, or 84% and 81% of all revenues for fiscal years 2012 and 2011, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,966,078, or 16% of total revenues for 2012, and \$4,764,679, or 19% of total revenues for 2011.
- The District had \$20,889,140 and \$20,906,084 in expenses for fiscal years 2012 and 2011; only \$3,966,078 for 2012 and \$4,764,679 for 2011 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,573,928 for 2012 and \$19,810,891 for 2011 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,165,482 in revenues and \$15,932,164 in expenditures for 2012, and \$16,304,600 in revenues and \$13,932,841 in expenditures in 2011. The General Fund's fund balance increased by \$93,303 from 2011 to 2012, and increased by \$106,113 from 2010 to 2011.
- Capital assets, net of accumulated depreciation, increased by \$294,097 for 2012 and increased by \$68,337 for 2011. The increase for 2012 was due primarily to the ongoing construction of school facilities, the completion of various improvements, and the purchase of new school buses and other items of furniture and equipment during the fiscal year.
- Long-term debt decreased by \$512,189 for 2012 and decreased by \$551,805 for 2011. The decrease for 2012 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$2,811 for 2012 and increased by \$3,195 for 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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 – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the financial statements

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

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. 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 as required by the Governmental Accounting Standards Board.

Supplemental Information

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

Other Information

Although not a required part of the basic financial statements, 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.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$45,959,587 as of June 30, 2012.

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

Table 1 presents a summary of the District's net assets at June 30, 2012 and June 30, 2011.

**Table 1
Condensed Statement of Net Assets**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Percentage Change</u>
Current assets	\$ 19,561,498	\$ 18,138,574	7.84 %
Restricted assets	12,368,518	10,963,916	12.81 %
Capital assets, net	19,218,009	18,923,912	1.55 %
Total assets	<u>51,148,025</u>	<u>48,026,402</u>	6.50 %
Current liabilities	275,703	292,757	(5.83) %
Long-term debt outstanding	4,912,735	5,424,924	(9.44) %
Total liabilities	<u>5,188,438</u>	<u>5,717,681</u>	(9.26) %
Net assets:			
Invested in capital assets, net of related debt	14,438,009	13,628,912	5.94 %
Restricted	16,159,836	13,744,112	17.58 %
Unrestricted	15,361,742	14,935,697	2.85 %
Total net assets	<u>\$ 45,959,587</u>	<u>\$ 42,308,721</u>	8.63 %

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

- Increase in net capital assets in the amount of \$294,097.
- The principal retirement of \$515,000 of long-term debt.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2012 and June 30, 2011 were \$24,540,006 and \$24,575,570, respectively. The total cost of all programs and services was \$20,889,140 for 2012 and \$20,906,084 for 2011.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

**Table 2
Changes in Net Assets**

	Year Ended June 30, 2012	Year Ended June 30, 2011	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 937,728	\$ 918,427	2.10 %
Operating grants and contributions	3,028,350	3,846,252	(21.26) %
General revenues:			
Property taxes	3,954,096	3,838,223	3.02 %
Grants and contributions not restricted	13,644,441	13,719,969	(0.55) %
Investment earnings	169,055	234,742	(27.98) %
Sixteenth section sources	2,771,782	1,981,515	39.88 %
Other	34,554	36,442	(5.18) %
Total revenues	24,540,006	24,575,570	(0.14) %
Expenses:			
Instruction	12,385,576	12,452,240	(0.54) %
Support services	6,234,871	6,256,556	(0.35) %
Non-instructional	1,493,538	1,494,121	(0.04) %
Sixteenth section	553,327	456,385	21.24 %
Interest and other expenses on long-term liabilities	221,828	246,782	(10.11) %
Total expenses	20,889,140	20,906,084	(0.08) %
Increase (Decrease) in net assets	3,650,866	3,669,486	(0.51) %
Net Assets, July 1	42,308,721	38,639,235	9.50 %
Net Assets, June 30	\$ 45,959,587	\$ 42,308,721	8.63 %

Governmental activities

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

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2011</u>	
Instruction	\$ 12,385,576	\$ 12,452,240	(0.54) %
Support services	6,234,871	6,256,556	(0.35) %
Non-instructional	1,493,538	1,494,121	(0.04) %
Sixteenth section	553,327	456,385	21.24 %
Interest on long-term liabilities	221,828	246,782	(10.11) %
Total expenses	\$ 20,889,140	\$ 20,906,084	(0.08) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2012</u>	<u>2011</u>	
Instruction	\$ (10,552,079)	\$ (9,818,337)	7.47 %
Support services	(5,677,338)	(5,634,599)	0.76 %
Non-instructional	(29,441)	(68,557)	(57.06) %
Sixteenth section	(442,376)	(373,130)	18.56 %
Interest on long-term liabilities	(221,828)	(246,782)	(10.11) %
Total net (expense) revenue	\$ (16,923,062)	\$ (16,141,405)	4.84 %

- Net cost of governmental activities (\$16,923,062 for 2012 and \$16,141,405 for 2011) was financed by general revenue, which is primarily made up of property taxes (\$3,954,096 for 2012 and \$3,838,223 for 2011) and state and federal revenues (\$13,644,441 for 2012 and \$13,719,969 for 2011). In addition, there was \$2,771,782 and \$1,981,515 in Sixteenth Section sources for 2012 and 2011, respectively.
- Investment earnings amounted to \$169,055 for 2012 and \$234,742 for 2011.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$31,707,917, an increase of \$2,838,576, which includes a decrease in reserve for inventory of \$14,859. \$4,111,276, or 13% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$27,596,641, or 87% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$93,303. The fund balance of Other Governmental Funds showed a decrease in the amount of \$2,831, which includes a decrease in reserve for inventory of \$14,859. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Basic Fund	no increase or decrease
Sixteenth Section Interest Fund	\$ 668,913
2005 Construction Fund	\$ 317,789
Complex Construction Fund	\$ 17,764
Sixteenth Section Principal Fund	\$ 1,743,638

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions made during the fiscal year were routine in nature and were insignificant when compared with total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2012, the District's total capital assets were \$27,624,269, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$1,016,494 from 2011, due primarily to the ongoing construction of school facilities, the completion of various improvements, and the purchase of new school buses and other items of furniture and equipment during the fiscal year. Total accumulated depreciation as of June 30, 2012, was \$8,406,260, and total depreciation expense for the year was \$735,973, resulting in total net capital assets of \$19,218,009.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 389,901	\$ 389,901	0.00 %
Construction in Progress	823,704	362,286	127.36 %
Buildings	13,777,631	14,140,350	(2.57) %
Building improvements	1,043,962	1,095,294	(4.69) %
Improvements other than buildings	2,001,220	1,853,092	7.99 %
Mobile equipment	1,112,783	1,003,921	10.84 %
Furniture and equipment	68,808	79,068	(12.98) %
Total	\$ 19,218,009	\$ 18,923,912	1.55 %

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

LINCOLN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Debt Administration. At June 30, 2012, the District had \$4,912,735 in outstanding long-term debt, of which \$543,982 is due within one year. During the fiscal year, the District made principal payments in the amount of \$515,000 on outstanding long-term debt. The liability for compensated absences increased \$2,811 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 2,370,000	\$ 2,590,000	(8.49) %
Limited obligation bonds payable	2,410,000	2,695,000	(10.58) %
Certificates of participation payable	-	10,000	(100.00) %
Compensated absences payable	132,735	129,924	2.16 %
Total	<u>\$ 4,912,735</u>	<u>\$ 5,424,924</u>	(9.44) %

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Lincoln County School District, P. O. Box 826, Brookhaven, MS 39602-0826.

FINANCIAL STATEMENTS

LINCOLN COUNTY SCHOOL DISTRICT

Statement of Net Assets
June 30, 2012

Exhibit A

		Governmental Activities
Assets		
Cash and cash equivalents	\$	18,393,577
Due from other governments		1,029,983
Other receivables, net		102,949
Inventories		34,989
Restricted assets		12,368,518
Capital assets, non-depreciable:		
Land		389,901
Construction in progress		823,704
Capital assets, net of accumulated depreciation:		
Buildings		13,777,631
Building improvements		1,043,962
Improvements other than buildings		2,001,220
Mobile equipment		1,112,783
Furniture and equipment		68,808
Total Assets		51,148,025
Liabilities		
Accounts payable and accrued liabilities		222,099
Interest payable on long-term liabilities		53,604
Long-term liabilities, due within one year:		
Capital related liabilities		540,000
Non-capital related liabilities		3,982
Long-term liabilities, due beyond one year:		
Capital related liabilities		4,240,000
Non-capital related liabilities		128,753
Total Liabilities		5,188,438
Net Assets		
Invested in capital assets, net of related debt		14,438,009
Restricted for:		
Expendable:		
School-based activities		2,991,517
Debt service		371,580
Forestry improvements		247,101
Unemployment benefits		69,314
Non-expendable:		
Sixteenth section		12,480,324
Unrestricted		15,361,742
Total Net Assets	\$	45,959,587

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

LINCOLN COUNTY SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 12,385,576	\$ 313,225	\$ 1,520,272	\$		\$ (10,552,079)
Support services	6,234,871	2,996	554,537			(5,677,338)
Non-instructional	1,493,538	510,556	953,541			(29,441)
Sixteenth section	553,327	110,951				(442,376)
Interest on long-term liabilities	221,828					(221,828)
Total Governmental Activities	\$ 20,889,140	\$ 937,728	\$ 3,028,350	\$ 0		\$ (16,923,062)
General Revenues:						
Taxes:						
						3,623,348
						330,748
Unrestricted grants and contributions:						
						13,555,747
						88,694
						169,055
						2,771,782
						34,554
						20,573,928
Change in Net Assets						3,650,866
Net Assets - Beginning						42,308,721
Net Assets - Ending						\$ 45,959,587

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

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet

Exhibit C

June 30, 2012

	Major Funds								Total Governmental Funds
	General Fund	Title I Basic Fund	Sixteenth Section Interest Fund	2005 Construction Fund	Complex Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds		
Assets									
Cash and cash equivalents	\$ 5,677,262	\$	\$ 2,436,593	\$ 6,195,764	\$ 3,215,057	\$ 12,170,149	\$ 868,901	\$	\$ 30,563,726
Investments							198,369		198,369
Due from other governments	407,875	65,569	947			259,725	295,731		1,029,847
Other receivables, net			13,820			88,658	471		102,949
Due from other funds	116,334								116,334
Inventories							34,989		34,989
Total assets	\$ 6,201,471	\$ 65,569	\$ 2,451,360	\$ 6,195,764	\$ 3,215,057	\$ 12,518,532	\$ 1,398,461	\$	\$ 32,046,214
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	\$ 40,086	\$	\$ 70,613	\$ 77,729	\$	\$ 16,936	\$ 16,735	\$	222,099
Due to other funds		65,569					50,629		116,198
Total Liabilities	40,086	65,569	70,613	77,729	0	16,936	67,364		338,297
Fund Balances:									
Nonspendable:									
Inventory							34,989		34,989
Permanent fund principal						12,480,324			12,480,324
Restricted:									
Debt service							425,184		425,184
Forestry improvement purposes							247,101		247,101
Food service							392,079		392,079
Sixteenth section interest funds			2,380,747						2,380,747
Unemployment benefits							69,314		69,314
Other purposes						21,272	162,430		183,702
Committed:									
Textbooks	235,349								235,349
Daycare	16,663								16,663
Repair and renovation	1,604,857								1,604,857
Capital improvements				6,118,035	3,215,057				9,333,092
Assigned:									
Activity funds	193,240								193,240
Unassigned	4,111,276								4,111,276
Total Fund Balances	6,161,385	0	2,380,747	6,118,035	3,215,057	12,501,596	1,331,097		31,707,917
Total Liabilities and Fund Balances	\$ 6,201,471	\$ 65,569	\$ 2,451,360	\$ 6,195,764	\$ 3,215,057	\$ 12,518,532	\$ 1,398,461	\$	\$ 32,046,214

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

LOWERY, PAVN, AND LEGGETT
 CERTIFIED PUBLIC ACCOUNTANTS

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

Exhibit C-1

Total fund balances for governmental funds **\$ 31,707,917**

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	389,901	
Construction in progress		823,704	
Buildings		19,019,016	
Building improvements		1,283,300	
Improvements other than buildings		2,671,632	
Mobile equipment		2,735,993	
Furniture and equipment		700,723	
Accumulated depreciation		<u>(8,406,260)</u>	19,218,009

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds		(2,370,000)	
Limited obligation bonds		(2,410,000)	
Compensated absences		(132,735)	
Accrued interest payable		<u>(53,604)</u>	(4,966,339)

Net assets of governmental activities **\$ 45,959,587**

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

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

Exhibit D

	Major Funds						Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Basic Fund	16th Section Interest Fund	2005 Construction Fund	Complex Const. Fund	16th Section Principal Fund		
Revenues:								
Local sources	\$ 4,030,886	\$	\$	\$ 33,702	\$ 17,764	\$	\$ 821,500	\$ 4,903,852
State sources	13,045,902						988,935	14,034,837
Federal sources	88,694	611,272					1,937,988	2,637,954
Sixteenth section sources			771,151			2,076,912	112,304	2,960,367
Total Revenues	17,165,482	611,272	771,151	33,702	17,764	2,076,912	3,860,727	24,537,010
Expenditures:								
Instruction	10,121,592	506,697					1,302,696	11,930,985
Support services	5,746,425	104,413		4,800			460,367	6,316,005
Noninstructional services	47,292	162					1,384,855	1,432,309
Sixteenth section	16,855		156,676			270,219	109,577	553,327
Facilities acquisition and construction				711,113				711,113
Debt service:								
Principal							515,000	515,000
Interest							226,215	226,215
Other							1,617	1,617
Total Expenditures	15,932,164	611,272	156,676	715,913	0	270,219	4,000,327	21,686,571
Excess (Deficiency) of Revenues over (under) Expenditures	1,233,318	0	614,475	(682,211)	17,764	1,806,693	(139,600)	2,850,439
Other Financing Sources (Uses):								
Insurance recovery	2,996							2,996
Operating transfers in	115,917		622,646	1,000,000			258,928	1,997,491
Operating transfers out	(1,258,928)		(568,208)			(63,055)	(107,300)	(1,997,491)
Total Other Financing Sources (Uses)	(1,140,015)	0	54,438	1,000,000	0	(63,055)	151,628	2,996
Net Change in Fund Balances	93,303	0	668,913	317,789	17,764	1,743,638	12,028	2,853,435
Fund Balances:								
July 1, 2011	6,068,082	0	1,711,834	5,800,246	3,197,293	10,757,958	1,333,928	28,869,341
Increase (Decrease) in reserve for inventory							(14,859)	(14,859)
June 30, 2012	\$ 6,161,385	\$ 0	\$ 2,380,747	\$ 6,118,035	\$ 3,215,057	\$ 12,501,596	\$ 1,331,097	\$ 31,707,917

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

LOWERY, PAVN, AND LEGGETT
CERTIFIED PUBLIC ACCOUNTANTS

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

**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, 2012**

Exhibit D-1

Net change in fund balances - total governmental funds **\$ 2,853,435**

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,032,493	
Depreciation expense	<u>(735,973)</u>	296,520

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(2,423)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	515,000	
Accrued interest payable	<u>6,004</u>	521,004

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(2,811)	
Change in inventory reserve	<u>(14,859)</u>	(17,670)

Change in net assets of governmental activities **\$ 3,650,866**

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

LINCOLN COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

Exhibit E

June 30, 2012

	Agency Funds
Assets	
Cash and cash equivalents	\$ 735,334
Total Assets	<u>\$ 735,334</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 689,818
Due to other funds	136
Due to student clubs	45,380
Total Liabilities	<u>\$ 735,334</u>

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

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a 5 member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Lincoln County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set 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 Lincoln County 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 is 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, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 12).

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2012

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 non-fiduciary 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 of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Title I Basic Fund - This fund accounts for the federal revenues and expenditures associated with federal funding for Title I programs.

Sixteenth Section Interest Fund - This special revenue 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 capital projects fund is used to account for capital expenditures which are financed by transfers from the General Fund.

Complex Construction Fund - This capital projects fund is used to account for capital expenditures which are financed by transfers from the General Fund and Sixteenth Section Interest Fund.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2012

Sixteenth Section Principal Fund – This permanent fund is used to account for the sale of nonrenewable 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.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

Permanent Funds - Permanent Funds are used to account for and report resources that are 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.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when 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

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

recorded only when payment is due.

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

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

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

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by 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 or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

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

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. 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 fund.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

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

7. Compensated Absences

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

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund Balances

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

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

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

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

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

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by board policy.

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

When an expenditure/expense is incurred for purposes for which both restricted and

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2012

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

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, 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 district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the 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 excess 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 deposit or 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (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 other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. 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. Investment income of 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 \$30,563,726 and \$735,334, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2012, none of the district's bank balance of \$32,188,331 was exposed to custodial credit risk.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

Investments

As of June 30, 2012, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Federal U.S. Treasury Cash Reserves Money Market Mutual Funds	AAAm-g	Less than one year	198,369
Total			<u>\$ 198,369</u>

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.

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I basic fund	\$ 65,569
	Other governmental funds	50,629
	Fiduciary funds	136
Total		<u>\$ 116,334</u>

The primary purpose of the interfund receivables and payables is to close out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	2005 Construction Fund	\$ 1,000,000
	Other governmental funds	258,928
Sixteenth section interest fund	General Fund	8,617
	Sixteenth section interest funds	559,591
Sixteenth section principal fund	Sixteenth section interest funds	63,055
Other governmental funds	General Fund	107,300
Total		\$ 1,997,491

The primary purpose of the interfund transfers was to transfer General Fund monies to various other governmental funds for operating purposes. These transfers were consistent with the activities of the fund making the transfer.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$ 12,170,149 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the investment balance, totaling \$ 198,369 of the MAEP Limited Obligation Bond/Note Fund.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

Note 5 – Capital Assets

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

	Balance 7/1/2011	Increases	Decreases	Balance 6/30/2012
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 389,901			\$ 389,901
Construction in progress	362,286	461,418		823,704
Total non-depreciable capital assets	<u>752,187</u>	<u>461,418</u>	<u>-</u>	<u>1,213,605</u>
<u>Depreciable capital assets:</u>				
Buildings	19,019,016			19,019,016
Building improvements	1,283,300			1,283,300
Improvements other than buildings	2,421,937	249,695		2,671,632
Mobile equipment	2,441,993	294,000		2,735,993
Furniture and equipment	689,342	27,380	15,999	700,723
Total depreciable capital assets	<u>25,855,588</u>	<u>571,075</u>	<u>15,999</u>	<u>26,410,664</u>
<u>Less accumulated depreciation for:</u>				
Buildings	4,878,666	362,719		5,241,385
Building improvements	188,006	51,332		239,338
Improvements other than buildings	568,845	101,568		670,413
Mobile equipment	1,438,072	185,137		1,623,209
Furniture and equipment	610,274	35,217	13,576	631,915
Total accumulated depreciation	<u>7,683,863</u>	<u>735,973</u>	<u>13,576</u>	<u>8,406,260</u>
Total depreciable capital assets, net	<u>18,171,725</u>	<u>(164,898)</u>	<u>2,423</u>	<u>18,004,404</u>
Governmental activities capital assets, net	<u>\$ 18,923,912</u>	<u>\$ 296,520</u>	<u>\$ 2,423</u>	<u>\$ 19,218,009</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 452,623
Support services	237,120
Non-instructional	46,230
Total depreciation expense - Governmental activities	<u>\$ 735,973</u>

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

Construction in progress is composed of:

	Spent to June 30, 2012	Remaining Commitment
Governmental Activities:		
Loyd Star Football field	\$ 362,286	\$ **
Bogue Chitto gymnasium	230,840	2,468,760
Enterprise gymnasium	230,578	2,394,822
Total governmental activities	<u>823,704</u>	<u>4,863,582</u>

** The Loyd Star football field is being completed in Phases. Phase I has been completed. The future Phases have not been started so the remaining commitment cannot be estimated.

Construction projects included in governmental activities are funded with General funds.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Amounts due within one year
A. General obligation bonds payable	\$ 2,590,000	\$	\$ 220,000	\$ 2,370,000	\$ 240,000
B. Limited obligation bonds payable	2,695,000		285,000	2,410,000	300,000
C. Certificates of participation payable	10,000		10,000	-	
D. Compensated absences payable	129,924	2,811		132,735	3,982
Total	<u>\$ 5,424,924</u>	<u>\$ 2,811</u>	<u>\$ 515,000</u>	<u>\$ 4,912,735</u>	<u>\$ 543,982</u>

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds payable	3.25-4.6%	12/1/2002	6/1/2020	\$ 3,800,000	\$ 2,370,000
Total				<u>\$ 3,800,000</u>	<u>\$ 2,370,000</u>

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

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

General obligation bond issue of 12/1/2002:

Year Ending June 30	Principal	Interest	Total
2013	\$ 240,000	\$ 101,388	\$ 341,388
2014	255,000	92,268	347,268
2015	270,000	82,322	352,322
2016	290,000	71,522	361,522
2017	305,000	153,770	458,770
2018 – 2022	1,010,000	94,210	1,104,210
Total	\$ 2,370,000	\$ 595,480	\$ 2,965,480

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 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, 2012, the amount of outstanding bonded indebtedness was equal to 3.5% of property assessments as of October 1, 2011.

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds Series 1998	4.2-6%	3/1/1998	2/1/2018	\$ 5,200,000	\$ 2,410,000
Total				\$ 5,200,000	\$ 2,410,000

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

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

Limited obligation bond issue of 3/1/1998:

Year Ending June 30	Principal	Interest	Total
2013	\$ 300,000	\$ 103,030	\$ 403,030
2014	310,000	89,150	399,150
2015	325,000	74,545	399,545
2016	340,000	59,250	399,250
2017	355,000	43,265	398,265
2018 – 2022	780,000	26,663	806,663
Total	\$ 2,410,000	\$ 395,903	\$ 2,805,903

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 12, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Cert of Participation Series 1998	4.95%	6/1/1998	6/1/2012	\$ 2,000,000	\$ -
Total				\$ 2,000,000	\$ -

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.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

Note 7 – Other Commitments

Operating leases:

The school district has several operating leases for the following:

1. Seventeen copiers
2. One Pitney Bowes desktop mailing system

Lease expenditures for the year ended June 30, 2012, amounted to \$30,000.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2013	\$ 30,000
2014	4,468
Total	<u>\$ 34,468</u>

Note 8 – Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2012 was 12.93% 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, 2012, 2011 and 2010 were \$1,389,084, \$1,321,045 and \$1,299,368, respectively, which equaled the required contributions for each year.

Note 9 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

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.

Year Ending June 30		Amount
2013	\$	76,722
2014		64,392
2015		46,203
2016		41,220
2017		39,816
2018 – 2022		133,594
2023 – 2027		85,952
2028 – 2032		81,151
2033 – 2037		34,908
Total	\$	<u>603,958</u>

Note 10 – Contingencies

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

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

Note 11 – Risk Management

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

Note 12 – Trust Certificates

A trust agreement dated June 1, 1998 was executed by and between the school district and Lincoln County Leasing Authority, Inc., 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

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2012

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.

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, fund balances, 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.

Note 13 - Insurance loss recoveries

The Lincoln County School District received \$2,996 in insurance loss recoveries related to awning damage during the 2011-2012 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss Recoveries	Percentage	Expense Function
\$ 2,996	100%	Non-instructional
\$ 2,996	100%	

Note 14 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the Lincoln County School District evaluated the activity of the district through April 25, 2013 and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT
Required Supplemental Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,101,066	\$ 4,138,256	\$ 4,030,886	\$ 37,190	\$ (107,370)
State sources	13,180,218	13,324,748	13,045,902	144,530	(278,846)
Federal sources	78,500	88,699	88,694	10,199	(5)
Total Revenues	17,359,784	17,551,703	17,165,482	191,919	(386,221)
Expenditures:					
Instruction	11,303,200	10,946,557	10,121,592	356,643	824,965
Support services	7,624,345	7,417,809	5,746,425	206,536	1,671,384
Noninstructional services	65,915	71,554	47,292	(5,639)	24,262
Sixteenth section	16,405	16,944	16,855	(539)	89
Facilities acquisition and construction	1,000	1,000		0	1,000
Total Expenditures	19,010,865	18,453,864	15,932,164	557,001	2,521,700
Excess (Deficiency) of Revenues over (under) Expenditures	(1,651,081)	(902,161)	1,233,318	748,920	2,135,479
Other Financing Sources (Uses):					
Insurance recovery		2,996	2,996	2,996	0
Operating transfers in	2,026,085	1,941,223	115,917	(84,862)	(1,825,306)
Operating transfers out	(2,507,919)	(3,128,818)	(1,258,928)	(620,899)	1,869,890
Total Other Financing Sources (Uses)	(481,834)	(1,184,599)	(1,140,015)	(702,765)	44,584
Net Change in Fund Balances	(2,132,915)	(2,086,760)	93,303	46,155	2,180,063
Fund Balances:					
July 1, 2011	5,282,654	6,068,082	6,068,082	785,428	0
June 30, 2012	\$ 3,149,739	\$ 3,981,322	\$ 6,161,385	\$ 831,583	\$ 2,180,063

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

LINCOLN COUNTY SCHOOL DISTRICT
Required Supplemental Information

Budgetary Comparison Schedule
Title I Basic Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	808,091	811,556	611,272	3,465	(200,284)
Total Revenues	808,091	811,556	611,272	3,465	(200,284)
Expenditures:					
Instruction	594,189	631,996	506,697	(37,807)	125,299
Support services	184,710	169,246	104,413	15,464	64,833
Noninstructional services	10,399	10,314	162	85	10,152
Total Expenditures	789,298	811,556	611,272	(22,258)	200,284
Excess (Deficiency) of Revenues over (under) Expenditures	18,793	0	0	(18,793)	0
Other Financing Sources (Uses):					
Operating transfers out	(18,793)	0	0	18,793	0
Total Other Financing Sources (Uses)	(18,793)	0	0	18,793	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2011	0	0	0	0	0
June 30, 2012	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

LINCOLN COUNTY SCHOOL DISTRICT
Required Supplemental Information

Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	840,160	792,806	771,151	(47,354)	(21,655)
Total Revenues	840,160	792,806	771,151	(47,354)	(21,655)
Expenditures:					
Sixteenth section sources	255,367	163,255	156,676	92,112	6,579
Total Expenditures	255,367	163,255	156,676	92,112	6,579
Excess (Deficiency) of Revenues over (under) Expenditures	584,793	629,551	614,475	44,758	(15,076)
Other Financing Sources (Uses):					
Operating transfers in	71,590	624,711	622,646	553,121	(2,065)
Operating transfers out	(539,850)	(570,239)	(568,208)	(30,389)	2,031
Total Other Financing Sources (Uses)	(468,260)	54,472	54,438	522,732	(34)
Net Change in Fund Balances	116,533	684,023	668,913	567,490	(15,110)
Fund Balances:					
July 1, 2011	1,711,834	1,711,834	1,711,834	0	0
June 30, 2012	\$ 1,828,367	\$ 2,395,857	\$ 2,380,747	\$ 567,490	\$ (15,110)

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

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2012

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT

Supplemental Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 247,075
National school lunch program	10.555	807,731
Total child nutrition cluster		<u>1,054,806</u>
Total passed-through Mississippi Department of Education		<u>1,054,806</u>
Total U.S. Department of Agriculture		<u>1,054,806</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	60,696
Total Federal Communications Commission		<u>60,696</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	27,852
Improving teacher quality state grants	84.367	162,216
School improvement grants	84.377	22,300
Education jobs fund	84.410	20,211
Subtotal		<u>232,579</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	716,267
Total Title I cluster		<u>716,267</u>
Special education cluster:		
Special education - grants to states	84.027	545,112
Special education - preschool grants	84.173	496
Total special education cluster		<u>545,608</u>
Total passed-through Mississippi Department of Education		<u>1,494,454</u>
Total U.S. Department of Education		<u>1,494,454</u>
Total for All Federal Awards		<u>\$ 2,609,956</u>

NOTES TO SCHEDULE

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

LINCOLN COUNTY SCHOOL DISTRICT

Supplemental Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2012**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 15,240,945	12,010,819	730,493	809,646	1,689,987
Other	6,445,626	1,638,152	219,301	29,911	4,558,262
Total	\$ 21,686,571	13,648,971	949,794	839,557	6,248,249
Total number of students *	2,730				
Cost per student	\$ 7,944	5,000	348	308	2,289

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

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

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

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

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

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

OTHER INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2012	2011*	2010*	2009*
Revenues:				
Local sources	\$ 4,030,886	\$ 3,978,029	\$ 3,969,675	\$ 3,822,329
State sources	13,045,902	12,232,655	12,823,797	13,807,313
Federal sources	88,694	93,916	94,752	82,550
Total Revenues	17,165,482	16,304,600	16,888,224	17,712,192
Expenditures:				
Instruction	10,121,592	8,506,980	8,895,370	9,989,935
Support services	5,746,425	5,362,732	5,403,403	5,430,114
Noninstructional services	47,292	48,808	42,346	47,169
Sixteenth section	16,855	14,321	13,970	14,608
Total Expenditures	15,932,164	13,932,841	14,355,089	15,481,826
Excess (Deficiency) of Revenues over (under) Expenditures	1,233,318	2,371,759	2,533,135	2,230,366
Other Financing Sources (Uses):				
Insurance recovery	2,996			
Sale of transportation equipment		7,668		1,237
Sale of other property			700	500
Operating transfers in	115,917	60,695	513,934	164,428
Operating transfers out	(1,258,928)	(2,334,009)	(1,534,809)	(2,488,141)
Total Other Financing Sources (Uses)	(1,140,015)	(2,265,646)	(1,020,175)	(2,321,976)
Net Change in Fund Balances	93,303	106,113	1,512,960	(91,610)
Fund Balances:				
Beginning of period, as previously reported	6,068,082	5,961,969	4,449,009	4,539,843
Prior period adjustments				776
Beginning of period, as restated	6,068,082	5,961,969	4,449,009	4,540,619
End of Period	\$ 6,161,385	\$ 6,068,082	\$ 5,961,969	\$ 4,449,009

*SOURCE - PRIOR YEAR AUDIT REPORTS

LINCOLN COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2012	2011*	2010*	2009*
Revenues:				
Local sources	\$ 4,903,852	\$ 4,843,711	\$ 4,888,524	\$ 4,614,370
State sources	14,034,837	13,225,963	13,546,088	14,512,772
Federal sources	2,637,954	4,340,258	3,866,642	2,588,718
Sixteenth section sources	2,960,367	2,165,638	3,591,413	2,683,574
Total Revenues	24,537,010	24,575,570	25,892,667	24,399,434
Expenditures:				
Instruction	11,930,985	12,019,575	11,932,218	11,688,502
Support services	6,316,005	6,023,436	5,951,300	6,053,763
Noninstructional services	1,432,309	1,460,471	1,384,805	1,392,782
Sixteenth section	553,327	456,385	491,609	460,829
Facilities acquisition and construction	711,113	784,986	349,478	599,641
Debt service:				
Principal	515,000	555,000	525,000	510,000
Interest	226,215	250,317	272,684	294,140
Other	1,617	2,328	2,352	2,340
Total Expenditures	21,686,571	21,552,498	20,909,446	21,001,997
Excess (Deficiency) of Revenues over (under) Expenditures	2,850,439	3,023,072	4,983,221	3,397,437
Other Financing Sources (Uses):				
Insurance recovery	2,996			
Sale of transportation equipment		7,668		1,237
Sale of other property			700	500
Operating transfers in	1,997,491	2,560,171	4,945,495	2,652,569
Operating transfers out	(1,997,491)	(2,560,171)	(4,945,495)	(2,652,569)
Total Other Financing Sources (Uses)	2,996	7,668	700	1,737
Net Change in Fund Balances	2,853,435	3,030,740	4,983,921	3,399,174
Fund Balances:				
Beginning of period, as previously reported	28,869,341	25,825,860	20,845,413	17,438,170
Prior period adjustments				776
Beginning of period, as restated	28,869,341	25,825,860	20,845,413	17,438,946
Increase (Decrease) in reserve for inventory	(14,859)	12,741	(3,474)	7,293
End of Period	\$ 31,707,917	\$ 28,869,341	\$ 25,825,860	\$ 20,845,413

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board

Lincoln County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln County School District, as of and for the year ended June 30, 2012, which collectively comprise Lincoln County School District's basic financial statements and have issued our report thereon dated April 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, school board members, others within the entity, 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.

Lowery, Payn and Leggett

Lowery, Payn, and Leggett

Certified Public Accountants

April 25, 2013

LOWERY, PAYN, AND LEGGETT

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

Superintendent and School Board

Lincoln County School District

Compliance

We have audited Lincoln County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln County School District's major federal programs for the year ended June 30, 2012. Lincoln County School 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 Lincoln County School District's management. Our responsibility is to express an opinion on Lincoln County School District's compliance based on our audit.

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

In our opinion, Lincoln County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of 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 our audit, we considered Lincoln County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control over compliance.

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

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

This report is intended solely for the information and use of management, school board, others within the entity, 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.



Lowery, Payn, and Leggett

Certified Public Accountants

April 25, 2013

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

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

Superintendent and School Board
Lincoln County School District

We 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, 2012, which collectively comprise Lincoln County School District's basic financial statements and have issued our report thereon dated April 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$6,145 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 our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

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

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

Lowery, Payn, and Leggett

Lowery, Payn, and Leggett
Certified Public Accountants

April 25, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|--|---------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | None reported |
| 5. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? (Yes/No) | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.027, 84.173	Special Education Cluster

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | No |

LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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