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LEE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

Charles L. Shivers, CPA
Ridgeland, MS

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INDEPENDENT AUDITOR'S REPORT

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CHARLES L. SHIVERS

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lee County School District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Lee County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
General Fund	Unmodified
Major Fund – Title I Regular Fund	Unmodified
Major Fund – EHA Part B Fund	Unmodified
Major Fund – School Building Fund	Unmodified
Major Fund – Bond 2012 Retirement Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Aggregate Remaining Fund Information

Due to the timing of the audit engagement, I was unable to observe the counting of the physical inventories included in the Aggregate Remaining Fund Information. Furthermore, I was unable to apply other appropriate procedures to establish the existence of the inventories. The possible effects on the Aggregate Remaining Fund Information of undetected misstatements, if any, could be material but not pervasive.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Lee County School District, as of June 30, 2013, and the changes in financial position of the Aggregate Remaining Fund Information thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lee County School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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. I have applied certain limited procedures to the required supplementary 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and 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 are presented for purposes of additional analysis and are not a required part of the basic 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, as required by the Mississippi State Auditor's Office, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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, as required by the Mississippi Department of Education, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 30, 2014, on my consideration of the Lee County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County School District's internal control over financial reporting and compliance.

Charles L Shivers, CPA

Ridgeland, MS
May 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis of Lee County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. 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 position for 2013 increased $533,411 which represents a 1.2% increase from fiscal year 2012. Total net position for 2012 increased $675,886 which represents a 1.5% increase from fiscal year 2011.
- General revenues amounted to $48,308,549 and $46,017,559, or 82.6% and 80.9% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for $10,205,671, or 17.4% of total revenues for 2013, and $10,827,534, or 19.1% of total revenues for 2012.
- The District had $57,980,809 and $56,169,207 in expenses for fiscal years 2013 and 2012; only $10,205,671 for 2013 and $10,827,534 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $48,308,549 for 2013 and $46,017,559 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had $45,919,724 in revenues and $46,358,168 in expenditures for 2013, and $44,469,554 in revenues and $44,947,385 in expenditures in 2012. The General Fund's fund balance decreased by $369,749 from 2012 to 2013, and decreased by $291,445 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by $1,216,427 for 2013 and decreased by $995,050 for 2012. The decrease for 2013 was due to the disposal of capital assets coupled with the increase in accumulated depreciation.
- Long-term debt decreased by $1,943,450 for 2013 and decreased by $1,767,534 for 2012. This decrease for 2013 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences decreased by $5,896 for 2013 and increased by $68,765 for 2012.

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 supplementary information, supplementary information, and other information.

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 Position 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 Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position 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 position changed during the most recent fiscal year. All changes in net position 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 and other expenses on long-term liabilities.

Fund Financial Statements

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

Governmental funds – 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 Position, 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 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 Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary 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.

Supplementary 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by $45,133,053 as of June 30, 2013.

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

Table 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	$ 12,965,523	$ 14,831,181	-12.58 %
Deferred charges - issuance cost	0	241,300	-100.00 %
Restricted assets	4,409,561	2,698,652	63.40 %
Capital assets, net	47,777,881	48,994,308	-2.48 %
Total assets	**65,152,965**	**66,765,441**	**-2.42 %**
Current liabilities	570,632	773,069	-26.19 %
Long-term debt outstanding	19,449,280	21,392,730	-9.08 %
Total liabilities	**20,019,912**	**22,165,799**	**-9.68 %**
Net position:			
Net investment in capital assets	28,880,889	28,244,308	2.25 %
Restricted	4,465,900	4,048,943	10.30 %
Unrestricted	11,786,264	12,306,391	-4.23 %
Total net position	**$ 45,133,053**	**$ 44,599,642**	**1.20 %**

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

- Decrease in net capital assets in the amount of $1,216,427.
- The principal retirement of $2,729,546 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were $58,514,220 and $56,845,093, respectively. The total cost of all programs and services was $57,980,809 for 2013 and $56,169,207 for 2012.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 2,389,709	$ 2,257,113	5.87 %
Operating grants and contributions	7,815,962	8,570,421	(8.80) %
General revenues:			
Property taxes	14,537,087	14,462,580	0.52 %
Grants and contributions not restricted	33,721,034	31,454,653	7.21 %
Investment earnings	4,822	37,747	(87.23) %
Other	45,606	62,579	(27.12) %
Total revenues	**58,514,220**	**56,845,093**	**2.94 %**
Expenses:			
Instruction	34,888,566	33,442,560	4.32 %
Support services	18,520,903	18,100,685	2.32 %
Non-instructional	3,704,180	3,817,529	(2.97) %
Interest on long-term liabilities	867,160	808,433	7.26 %
Total expenses	**57,980,809**	**56,169,207**	**3.23 %**
Increase in net position	**533,411**	**675,886**	**(21.08) %**
Net Position, July 1	**44,599,642**	**43,923,756**	1.54 %
Net Position, June 30	**$ 45,133,053**	**$ 44,599,642**	**1.20 %**

Governmental activities

The following table presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term liabilities. 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.

Table 3
Net Cost of Governmental Activities

	Total Expenses 2013	Total Expenses 2012	Percentage Change
Instruction	$ 34,888,566	$ 33,442,560	4.32 %
Support services	18,520,903	18,100,685	2.32 %
Non-instructional	3,704,180	3,817,529	(2.97) %
Interest on long-term liabilities	867,160	808,433	7.26 %
Total expenses	**$ 57,980,809**	**$ 56,169,207**	**3.23 %**

	Net (Expense) Revenue 2013	Net (Expense) Revenue 2012	Percentage Change
Instruction	$ (30,965,102)	$ (28,474,384)	8.75 %
Support services	(16,174,787)	(16,049,127)	0.78 %
Non-instructional	231,911	(9,729)	(2,483.71) %
Interest on long-term liabilities	(867,160)	(808,433)	7.26 %
Total net (expense) revenue	**$ (47,775,138)**	**$ (45,341,673)**	**5.37 %**

- Net cost of governmental activities ($47,775,138 for 2013 and $45,341,673 for 2012) was financed by general revenue, which is primarily made up of property taxes ($14,537,087 for 2013 and $14,462,580 for 2012) and state and federal revenues ($33,721,034 for 2013 and $31,454,653 for 2012).

- Investment earnings amounted to $4,822 for 2013 and $37,747 for 2012.

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 $16,971,984, a decrease of $51,182, which includes an increase in inventory of $25,266. $5,453,599 or 32.1% 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 $11,518,385 or 67.9% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was $369,749. The fund balance of Other Governmental Funds showed an increase in the amount of $358,349, which includes an increase in reserve for inventory of $25,266. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Title I Regular Fund	no increase or decrease
EHA Part B Fund	no increase or decrease
School Building Fund	$ 1,142
Bond 2012 Retirement Fund	$ (40,924)

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. The school board, however, did not formally approve the budget revisions.

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 supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were $73,930,240, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of $446,509 from 2012. Total accumulated depreciation as of June 30, 2013, was $26,152,359, and total depreciation expense for the year was $1,849,119, resulting in total net capital assets of $47,777,881.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2013	June 30, 2012	Percentage Change
Land	$ 2,015,275	$ 2,015,275	0.00 %
Buildings	39,154,060	40,233,058	(2.68) %
Building improvements	2,896,401	3,044,057	(4.85) %
Improvements other than buildings	270,651	289,463	(6.50) %
Mobile equipment	2,999,357	3,002,628	(0.11) %
Furniture and equipment	442,137	409,827	7.88 %
Total	**$ 47,777,881**	**$ 48,994,308**	**(2.48) %**

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

Debt Administration. At June 30, 2013, the District had $19,449,280 in outstanding long-term debt, of which $2,688,383 is due within one year. The liability for compensated absences decreased $5,896 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2013	June 30, 2012	Percentage Change
General obligation bonds payable	$ 0	$ 15,195,000	(100.00) %
General obligation refunding bonds payable	15,205,000	1,855,000	719.68 %
Premium	241,992	0	N/A
Three mill notes payable	450,000	700,000	(35.71) %
Shortfall notes payable	0	84,546	(100.00) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	552,288	558,184	(1.06) %
Total	**$ 19,449,280**	**$ 21,392,730**	**(9.08) %**

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

CURRENT ISSUES

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

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

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 Lee County School District, 1280 College View Drive, Tupelo, MS 38804.

BASIC FINANCIAL STATEMENTS

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LEE COUNTY SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	$ 11,469,487
Due from other governments	1,320,877
Inventories	175,159
Restricted assets (Note 4)	4,409,561
Non-depreciable capital assets (Note 5)	2,015,275
Depreciable capital assets, net (Note 5)	45,762,606
Total Assets	65,152,965
Liabilities	
Accounts payable and accrued liabilities	403,100
Interest payable on long-term liabilities	167,532
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	2,620,000
Premium on capital related liabilities	24,200
Non-capital related liabilities	44,183
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	16,035,000
Premium on capital related liabilities	217,792
Non-capital related liabilities	508,105
Total Liabilities	20,019,912
Net Position	
Net investment in capital assets	28,880,889
Restricted net position	
Expendable	
School-based activities	1,460,912
Debt service	2,837,866
Unemployment benefits	167,122
Unrestricted	11,786,264
Total Net Position	$ 45,133,053

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

LEE COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2013

Exhibit B

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 34,888,566	1,219,071	2,704,393	(30,965,102)
Support services	18,520,903	36,087	2,310,029	(16,174,787)
Non-instructional	3,704,180	1,134,551	2,801,540	231,911
Interest on long-term liabilities	867,160			(867,160)
Total Governmental Activities	57,980,809	2,389,709	7,815,962	(47,775,138)
General Revenues				
Taxes				
General purpose levies				11,313,816
Debt purpose levies				3,223,271
Unrestricted grants and contributions				
State				33,471,458
Federal				249,576
Unrestricted investment earnings				4,822
Other				45,606
Total General Revenues				48,308,549
Changes in Net Position				533,411
Net Position - Beginning				44,599,642
Net Position - Ending				$ 45,133,053

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

LEE COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2013

Exhibit C

	Major Funds						
	General Fund	Title I Regular Fund	EHA Part B Fund	School Building Fund	Bond 2012 Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents (Note 2)	$ 7,520,928			3,948,558	935,710	3,343,848	15,749,044
Cash with fiscal agent (Note 2)						130,004	130,004
Due from other governments	719,805	289,761	126,893		24,138	160,280	1,320,877
Due from other funds (Note 3)	488,788						488,788
Inventories						175,159	175,159
Total Assets	8,729,521	289,761	126,893	3,948,558	959,848	3,809,291	17,863,872
Liabilities and Fund Balances							
Liabilities							
Accounts payable & accrued liabilities	339,527	12,716	1,871			48,986	403,100
Due to other funds (Note 3)		277,045	125,022			86,721	488,788
Total Liabilities	339,527	289,761	126,893	0	0	135,707	891,888
Fund Balances							
Nonspendable							
Inventory						175,159	175,159
Restricted							
Debt service					959,848	2,045,550	3,005,398
Unemployment benefits						167,122	167,122
Grant activities						1,285,753	1,285,753
Bus Acquisition	36,395						36,395
Assigned							
Capital improvements				3,948,558			3,948,558
Cash flow	2,900,000						2,900,000
Unassigned	5,453,599						5,453,599
Total Fund Balances	8,389,994	0	0	3,948,558	959,848	3,673,584	16,971,984
Total Liabilities and Fund Balances	$ 8,729,521	289,761	126,893	3,948,558	959,848	3,809,291	17,863,872

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

LEE COUNTY SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Exhibit C-1

		Amount
Total Fund Balance - Governmental Funds		$ 16,971,984
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	2,015,275	
Buildings	57,841,208	
Building improvements	3,691,404	
Improvement other than buildings	628,414	
Mobile equipment	8,071,975	
Furniture and equipment	1,681,964	
Accumulated depreciation	(26,152,359)	47,777,881
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	(15,205,000)	
Premium on bonds payable	(241,992)	
Notes payable	(450,000)	
Qualified school construction bonds payable	(3,000,000)	
Compensated absences	(552,288)	
Accrued interest payable	(167,532)	(19,616,812)
Total Net Position - Governmental Activities		$ 45,133,053

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

LEE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

Exhibit D

	Major Funds						
	General Fund	Title I Regular Fund	EHA Part B Fund	School Building Fund	Bond 2012 Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Local sources	$ 12,537,813			1,142	1,514,647	2,878,322	16,931,924
State sources	33,057,726					1,059,022	34,116,748
Federal sources	324,185	1,418,355	1,769,541			3,907,861	7,419,942
Total Revenues	45,919,724	1,418,355	1,769,541	1,142	1,514,647	7,845,205	58,468,614
Expenditures							
Instruction	29,889,439	973,274	978,467			1,974,692	33,815,872
Support services	16,468,642	287,276	769,363			842,711	18,367,992
Noninstructional services	87	24,153				3,564,902	3,589,142
Debt service							
Principal (Note 6)					1,040,000	1,689,546	2,729,546
Interest					513,071	80,517	593,588
Other					288,453	3,750	292,203
Total Expenditures	46,358,168	1,284,703	1,747,830	0	1,841,524	8,156,118	59,388,343
Excess (Deficiency) of Revenues Over Expenditures	(438,444)	133,652	21,711	1,142	(326,877)	(310,913)	(919,729)
Other Financing Sources (Uses)							
Proceeds of refunding bonds (Note 6)					14,255,000		14,255,000
Proceeds of loans (Note 6)	450,000						450,000
Insurances loss recoveries (Note 12)	85,922						85,922
Sale of transportation equipment	16,011						16,011
Sale of other property						5,395	5,395
Operating transfers in (Note 3)	74,663					886,903	961,566
Other financing sources					266,192		266,192
Operating transfers out (Note 3)	(557,901)	(133,652)	(21,711)			(248,302)	(961,566)
Payment to refunded bond escrow agent					(14,235,239)		(14,235,239)
Total Other Financing Sources (Uses)	68,695	(133,652)	(21,711)	0	285,953	643,996	843,281
Net Change in Fund Balances	(369,749)	0	0	1,142	(40,924)	333,083	(76,448)
Fund Balances							
July 1, 2012	8,759,743	0	0	3,947,416	1,000,772	3,315,235	17,023,166
Increase in reserve for inventory						25,266	25,266
June 30, 2013	$ 8,389,994	0	0	3,948,558	959,848	3,673,584	16,971,984

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

LEE COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013

Exhibit D-1

		Amount
Net Change in Fund Balance - Governmental Funds		$ (76,448)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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, those amounts are:		
Capital outlay	645,372	
Depreciation expense	(1,849,119)	(1,203,747)
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 position differs from the change in fund balance by the cost of the asset sold.		(12,680)
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 position. Also, governmental funds report the effect of issuance cost, 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:		
Bonds and notes issued and related premium	(14,971,192)	
Payments of debt principal and amortization of premium	16,908,746	
Accrued interest payable	98,870	2,036,424
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 the governmental funds. These activities include:		
Change in compensated absences	5,896	
Change in inventory reserve	25,266	
Write-off of prior year deferred charge	(241,300)	(210,138)
Changes in Net Position of Governmental Activities		$ 533,411

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

LEE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2013

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents (Note 2)	$ 3,362,372
Total Assets	3,362,372
Liabilities	
Accounts payable and accrued liabilities	3,191,807
Due to student clubs	170,565
Total Liabilities	$ 3,362,372

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

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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. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

1. Net investment in capital assets 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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 Regular Fund - This special revenue fund is federally funded and is used to account for expenditures associated with educationally deprived children.

EHA Part B Fund - This special revenue fund is used to account for the resources and expenditures associated with children with disabilities.

School Building Fund - This capital projects funds is used for capital improvement projects as decided by management and the school board.

Bond 2012 Retirement Fund - This debt service fund is used to pay the interest and retire the principle on the 2012 General Obligation Refunding Bonds. This fund is financed with ad valorem taxes.

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

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

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.

FIDUCIARY FUNDS

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to

be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

Property 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 is both restricted and unrestricted net position 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 2012 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.

D. 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.

E. Assets, liabilities and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from 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 Position 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.

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 Position. 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

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

9. Long-term Liabilities and Bond 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.

10. 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.

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is documented in the board minutes of the school board. Currently there is no committed fund balance for this school district.

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 the business manager pursuant to authorization established by the school board.

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

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

It is the policy of the School District to maintain a minimum fund balance in the General Fund that is not less than 10% of the expenditures of the General Fund.

Note 2 – Cash and Cash Equivalents and Cash with Fiscal Agents

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 $15,749,044 and $3,362,372, 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.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was $130,004.

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	Major fund - Title I Ragular Fund	$	277,045
	Major fund - EHA Part B Fund		125,022
	Other governmental funds		86,721
Total		$	488,788

The purpose of the inter-fund transfers was to eliminate deficit cash balances in certain federal programs as part of normal year-end closing entries.

B. Inter-fund Transfers

Transfers Out	Transfers In		Amount
General Fund	Other governmental funds	$	557,901
Major fund - Title I Regular Fund	General Fund		28,196
	Other governmental funds		105,456
Major fund - EHA Part B Fund	General Fund		21,711
Other governmental funds	General Fund		24,756
	Other governmental funds		223,546
Total		$	961,566

The transfer out of the General Fund was for financing the operations of the vocational program and youth detention program in the Other Governmental Funds. The transfer out of the Title I Regular Fund was for indirect cost and to finance the Administrative Cost Fund. The transfer out of the EHA Part B Fund was for indirect cost. The transfer out of the Other Governmental Funds was for indirect cost, to provide funding for the Administrative Cost Fund, and to transfer pledged EEF Building and Bus Funds to a debt service fund.

Note 4 – Restricted Assets

The restricted assets represent the cash balance and cash with fiscal agents balances, totaling $4,279,557 and $130,004, respectively, of various funds whose balances are legally restricted and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
Governmental Activities:				
Non-depreciable capital assets:				
Land	$ 2,015,275			2,015,275
Total non-depreciable capital assets	2,015,275	0	0	2,015,275
Depreciable capital assets:				
Buildings	57,841,208			57,841,208
Building improvements	3,691,404			3,691,404
Improvements other than buildings	628,414			628,414
Mobile equipment	7,696,915	493,847	(118,787)	8,071,975
Furniture and equipment	1,610,515	151,525	(80,076)	1,681,964
Total depreciable capital assets	71,468,456	645,372	(198,863)	71,914,965
Less accumulated depreciation for:				
Buildings	17,608,150	1,078,998		18,687,148
Building improvements	647,347	147,656		795,003
Improvements other than buildings	338,951	18,812		357,763
Mobile equipment	4,694,287	485,239	(106,908)	5,072,618
Furniture and equipment	1,200,688	118,414	(79,275)	1,239,827
Total accumulated depreciation	24,489,423	1,849,119	(186,183)	26,152,359
Total depreciable capital assets, net	46,979,033	(1,203,747)	(12,680)	45,762,606
Governmental activities capital assets, net	$ 48,994,308	(1,203,747)	(12,680)	47,777,881

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	$ 1,147,871
Support services	560,944
Non-instructional	140,304
Total depreciation expense - Governmental activities	$ 1,849,119

Note 6 – Long-term Liabilities

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. General obligation bonds payable	$ 15,195,000		(15,195,000)	0	
B. General obligation refunding bonds payable	1,855,000	14,255,000	(905,000)	15,205,000	2,170,000
Premiums		266,192	(24,200)	241,992	24,200
C. Three mill notes payable	700,000	450,000	(700,000)	450,000	450,000
D. Shortfall notes payable	84,546		(84,546)	0	
E. Qualified school construction bonds payable	3,000,000			3,000,000	0
F. Compensated absences payable	558,184		(5,896)	552,288	44,183
Total	$ 21,392,730	14,971,192	(16,914,642)	19,449,280	2,688,383

A. General obligation bonds payable

The general obligation bonds, 2002 were refunded during the fiscal year. See Note 6 (B).

B. General obligation refunding bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. General obligation refunding bonds, 1999	4.2	8/1/1999	8/1/2013	$ 8,015,000	950,000
2. General obligation refunding bonds, 2012	3.0	10/2/2012	9/1/2022	14,255,000	14,255,000
Total				$ 22,270,000	15,205,000

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

1. General obligation refunding bonds, 1999:

Year Ending June 30	Principal	Interest	Total
2014	$ 950,000	21,375	971,375

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

2. General obligation refunding bonds, 2012:

Year Ending June 30	Principal	Interest	Total
2014	$ 1,220,000	363,325	1,583,325
2015	1,225,000	326,650	1,551,650
2016	1,280,000	289,075	1,569,075
2017	1,335,000	249,850	1,584,850
2018	1,395,000	208,900	1,603,900
2019 – 2023	7,800,000	505,988	8,305,988
Total	$ 14,255,000	1,943,788	16,198,788

This debt will be retired from the Bond 202 Retirement Fund (Debt Service Fund).

Total general obligation refunding bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2014	$ 2,170,000	384,700	2,554,700
2015	1,225,000	326,650	1,551,650
2016	1,280,000	289,075	1,569,075
2017	1,335,000	249,850	1,584,850
2018	1,395,000	208,900	1,603,900
2019 – 2023	7,800,000	505,988	8,305,988
Total	$ 15,205,000	1,965,163	17,170,163

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, 2013, the amount of outstanding bonded indebtedness was equal to 3.4% of property assessments as of October 1, 2012.

Advance Refunding

On October 1, 2012, the district issued $14,255,000 in general obligation refunding bonds with an average interest rate of 3.0% to advance refund $14,155,000 of outstanding general obligation refunding bonds with an average interest rate of 4.5%. The net proceeds of $14,235,239 after considering a premium of $266,192, payments of $285,100 for issuance costs and other cost of $853, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation refunding bond, 2002.

As a result, the general obligation refunding bonds, 2002 are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the general obligation refunding bonds, 2002 to reduce its total debt service payments over the remaining ten years of the debt by approximately $1,467,000 and to realize an economic gain of $1,327,609.

Bond Premium

The general obligation refunding bonds, 2012 were issued with a bond premium of $266,192. This premium was capitalized and will be amortized over the remaining live of the Bonds. During the fiscal year, $24,200 was amortized and the remaining balance to be amortized is $241,992.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, 2012	0.54	12/14/2012	12/14/2013	$ 450,000	450,000

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

Year Ending June 30	Principal	Interest	Total
2014	$ 450,000	2,430	452,430

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

D. Shortfall notes payable

The shortfall notes were paid in full during the fiscal year.

E. Qualified school construction bonds payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds	0.94	12/22/2009	9/15/2024	$ 3,000,000	3,000,000

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

Year Ending June 30	Principal	Interest	Total
2014	$ 0	28,200	28,200
2015	0	28,200	28,200
2016	0	28,200	28,200
2017	0	28,200	28,200
2018	0	28,200	28,200
2019 – 2023	0	141,000	141,000
2024	3,000,000	28,200	3,028,200
Total	$ 3,000,000	310,200	3,310,200

This debt will be retired from the QSCB Limited Tax Note Fund (Debt Service Fund) which is funded with ad valorem taxes and pledged Education Enhancement Funds. The debt is partly secured by an irrevocable pledge of Education Enhancement Fund revenues the district receives from the State of Mississippi pursuant to the Miss. Code Ann. (1972).

F. Compensated absences payable

As more fully explained in Note 1(E)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – 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, 2013 was 14.26% 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, 2013, 2012 and 2011 were $4,644,355, $4,012,599 and $3,779,006, respectively, which equaled the required contributions for each year.

Note 8 – 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.

Note 9 – Risk Management

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

Note 10 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 was $130,004. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2014	$	236,000
2015		238,500
2016		238,500
2017		238,500
2018		238,500
2019 – 2023		1,200,000
2024 – 2025		480,000
Total	$	2,870,000

Note 11 – Vocational School Consortium

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

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement for the construction or operation of a regional vocational education center. The agreements designate the fiscal agent and provide the method of financing the operation for the centers, the manner in which the centers are to be controlled and staffed and sets detail procedures for student admission and the transportation services for those students.

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

Note 12 - Insurance loss recoveries

The School District received $85,922 in insurance loss recoveries related to various damages that occurred during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges to services and allocated among the expense functions based on the following percentages:

Insurance Loss Recoveries	Percentage	Expense Function
$ 75,177	87%	Instruction
10,745	13%	Support services
$ 85,922	100%	

Note 13 - Subsequent Events

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through May 30, 2014, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

On October 16, 2013, the school district issued $12,285,000 in general obligation bonds to be used for repairs, renovation and construction of school facilities. The bonds will mature over a twenty year period and have an interest rate ranging from 4.0% to 6.25%.

On November 1, 2013, the school district issued $370,584 in shortfall notes to provide for a prior year shortage of ad valorem taxes for operations. The notes will mature over a three year period and have an interest rate of 2.02%.

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REQUIRED SUPPLEMENTARY INFORMATION

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LEE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 12,478,989	12,478,989	12,537,813	0	58,824
State sources	32,843,903	32,843,903	33,057,726	0	213,823
Federal sources	258,000	258,000	324,185	0	66,185
Total Revenues	45,580,892	45,580,892	45,919,724	0	338,832
Expenditures					
Instruction	29,817,350	29,817,350	29,889,439	0	(72,089)
Support services	17,696,710	17,696,710	16,468,642	0	1,228,068
Noninstructional services	0	0	87	0	(87)
Facilities acquisition and construction	6,000	6,000	0	0	6,000
Total Expenditures	47,520,060	47,520,060	46,358,168	0	1,161,892
Excess (Deficiency) of Revenues Over Expenditures	(1,939,168)	(1,939,168)	(438,444)	0	1,500,724
Other Financing Sources (Uses)					
Proceeds of loans	0	0	450,000	0	450,000
Insurance loss recoveries	0	0	85,922	0	85,922
Sale of transportation equipment	0	0	16,011	0	16,011
Operating transfers in	4,829,285	4,829,285	74,663	0	(4,754,622)
Other financing sources	470,100	470,100	0	0	(470,100)
Operating transfers out	(5,591,927)	(5,591,927)	(557,901)	0	5,034,026
Total Other Financing Sources (Uses)	(292,542)	(292,542)	68,695	0	361,237
Net Change in Fund Balances			(369,749)		
Fund Balances					
July 1, 2012			8,759,743		
June 30, 2013			$ 8,389,994		

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

LEE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule for the Major Special Revenue Fund -Title I Regular Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ 1,375,129	1,375,129	1,418,355	0	43,226
Total Revenues	1,375,129	1,375,129	1,418,355	0	43,226
Expenditures					
Instruction	1,138,138	1,138,138	973,274	0	164,864
Support services	228,241	228,241	287,276	0	(59,035)
Noninstructional services	8,750	8,750	24,153	0	(15,403)
Total Expenditures	1,375,129	1,375,129	1,284,703	0	90,426
Excess (Deficiency) of Revenues Over Expenditures	0	0	133,652	0	133,652
Other Financing Sources (Uses)					
Operating transfers out	0	0	(133,652)	0	(133,652)
Total Other Financing Sources (Uses)	0	0	(133,652)	0	(133,652)
Net Change in Fund Balances			0		
Fund Balances					
July 1, 2012			0		
June 30, 2013			$ 0		

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

LEE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule for the Major Special Revenue Fund - EHA Part B Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ 1,374,385	1,374,385	1,769,541	0	395,156
Total Revenues	1,374,385	1,374,385	1,769,541	0	395,156
Expenditures					
Instruction	878,598	878,598	978,467	0	(99,869)
Support services	477,787	477,787	769,363	0	(291,576)
Total Expenditures	1,356,385	1,356,385	1,747,830	0	(391,445)
Excess (Deficiency) of Revenues Over Expenditures	18,000	18,000	21,711	0	3,711
Other Financing Sources (Uses)					
Operating transfers out	18,000	18,000	(21,711)	0	(39,711)
Total Other Financing Sources (Uses)	18,000	18,000	(21,711)	0	(39,711)
Net Change in Fund Balances			0		
Fund Balances					
July 1, 2012			0		
June 30, 2013			$ 0		

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

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

(3) Individual Fund Disclosures.

Excess Expenditures over Budget.

Individual funds that have an excess of expenditures over budget, including amounts of the excess, are as follows:

Fund Name	Excess Expenditures Over Budget
Special Education Fund	$ (123,520)
High School Activities Fund	$ (191,841)
Elementary Activities Fund	$ (69,500)
Child Nutrition Fund	$ (252,960)
Title I Carryover Fund	$ (386,647)
Title I School Improvement Fund	$ (74,086)
Consolidated Administrative Cost Fund	$ (15,956)
Title VI Fund	$ (212,673)
Title II Fund	$ (4,925)
EHA Part B Fund	$ (391,444)
Vocational Fund	$ (105,785)
Extended School Year Fund	$ (10,784)
Youth Detention Fund	$ (9,224)
Shortfall Note Fund	$ (87,931)
Three Mill Note Retirement Fund	$ (707,420)
Bond 1993 Retirement Fund	$ (948,311)
Bond 2012 Retirement Fund	$(16,076,762)
QSCB Retirement Fund	$ (90,147)

The school board did not formally adopt the amended budget at year end. At year end, there were available resources for each of the funds listed, thus the expenditures in excess of budgeted amounts is not a violation of state law.

SUPPLEMENTARY INFORMATION

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LEE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

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	$ 1,008,205
National school lunch program	10.555	2,741,031
Total child nutrition cluster		3,749,236
Total U.S. Department of Agriculture		3,749,236
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	78,609
Total Federal Communications Commission		78,609
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - basic grants to local educational agencies	84.010	1,870,639
Career and technical education - basic grants to states	84.048	85,623
Rural education	84.358	212,673
Improving teacher quality - state grants	84.367	248,245
School improvement grants	84.377	74,068
Total		2,491,248
Special education cluster:		
Special education - grants to states	84.027	1,769,541
Special education - preschool grants	84.173	69,083
Total special education cluster		1,838,624
Total passed-through Mississippi Department of Education		4,329,872
Total U.S. Department of Education		4,329,872
Total for All Federal Awards		$ 8,157,717

NOTES TO SCHEDULE

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

LEE COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administrative	School Administration	Other
Salaries and fringe benefits	$ 44,962,945	34,826,148	1,684,789	3,539,741	4,912,267
Other	14,425,398	3,537,264	233,925	27,155	10,627,054
Total	59,388,343	38,363,412	1,918,714	3,566,896	15,539,321
Total number of students	6,301				
Cost per student	$ 9,425	6,088	305	566	2,466

Notes to the schedule.

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

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

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

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

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

OTHER INFORMATION

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LEE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues				
Local sources	$ 12,537,813	12,624,355	12,720,682	12,477,048
State sources	33,057,726	31,279,501	28,902,031	29,560,410
Federal sources	324,185	565,698	251,769	283,223
Total Revenues	45,919,724	44,469,554	41,874,482	42,320,681
Expenditures				
Instruction	29,889,439	28,303,879	24,525,215	25,396,742
Support services	16,468,642	16,643,506	16,368,887	15,537,062
Noninstructional services	87	0	0	0
Facilities acquisition and construction	0	0	50,753	89,434
Total Expenditures	46,358,168	44,947,385	40,944,855	41,023,238
Excess (Deficiency) of Revenues Over Expenditures	(438,444)	(477,831)	929,627	1,297,443
Other Financing Sources (Uses)				
Proceeds of loans	450,000	700,000	600,000	0
Insurances loss recoveries	85,922	20,199	0	11,975
Sale of transportation equipment	16,011	0	0	0
Sale of other property	0	21,673	20,508	14,270
Operating transfers in	74,663	59,589	23,822	18,767
Other financing sources	0	0	10	1,710
Operating transfers out	(557,901)	(615,075)	(261,525)	(15,913)
Total Other Financing Sources (Uses)	68,695	186,386	382,815	30,809
Net Change in Fund Balances	(369,749)	(291,445)	1,312,442	1,328,252
Fund Balances				
July 1	8,759,743	9,051,188	7,738,746	6,410,494
June 30	$ 8,389,994	8,759,743	9,051,188	7,738,746

* Source - Prior year audit reports.

LEE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues				
Local sources	$ 16,931,924	16,890,348	17,156,365	17,147,917
State sources	34,116,748	32,508,873	30,604,378	31,454,225
Federal sources	7,419,942	7,432,072	11,568,137	10,469,524
Total Revenues	58,468,614	56,831,293	59,328,880	59,071,666
Expenditures				
Instruction	33,815,872	32,254,105	32,641,580	33,106,353
Support services	18,367,992	18,319,671	18,596,700	17,285,883
Noninstructional services	3,589,142	3,721,243	3,409,207	3,370,232
Facilities acquisition and construction	0	0	2,496,954	915,098
Debt service				
Principal	2,729,546	2,536,299	2,513,194	2,350,000
Interest	593,588	832,997	908,931	950,017
Other	292,203	6,747	9,756	4,550
Total Expenditures	59,388,343	57,671,062	60,576,322	57,982,133
Excess (Deficiency) of Revenues Over Expenditures	(919,729)	(839,769)	(1,247,442)	1,089,533
Other Financing Sources (Uses)				
Proceeds of general obligation bonds	0	0	600,000	3,000,000
Proceeds of refunding bonds	14,255,000	0	0	0
Proceeds of loans	450,000	700,000	0	0
Insurances loss recoveries	85,922	20,199	0	11,975
Sale of transportation equipment	16,011	0	0	0
Sale of other property	5,395	21,673	22,033	14,270
Operating transfers in	961,566	887,174	499,827	275,602
Other financing sources	266,192	0	10	1,710
Operating transfers out	(961,566)	(887,174)	(499,827)	(275,602)
Payment to refunded bond escrow agent	(14,235,239)	0	0	0
Total Other Financing Sources (Uses)	843,281	741,872	622,043	3,027,955
Net Change in Fund Balances	(76,448)	(97,897)	(625,399)	4,117,488
Fund Balances				
July 1	17,023,166	17,126,945	17,737,199	13,606,225
Increase (Decrease) in reserve for inventory	25,266	(5,882)	15,145	13,486
June 30	$ 16,971,984	17,023,166	17,126,945	17,737,199

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS 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*

Independent Auditor's Report

Superintendent and School Board
Lee County School District

I have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lee County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lee County School District's basic financial statements, and have issued my report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Lee County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lee County School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Lee County School District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. [2013-03].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. [2013-01 and 2013-02].

Compliance and Other Matters

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

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Lee County School District's Response to Findings

Lee County School District's response to the findings identified in my audit is described in the accompanying Auditee's Corrective Action Plan. Lee County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles L. Shivers, CPA

Ridgeland, MS
May 30, 2014

CHARLES L. SHIVERS

Certified Public Accountant

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

Superintendent and School Board
Lee County School District

Report on Compliance for Each Major Federal Program

I have audited Lee 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 Lee County School District's major federal programs for the year ended June 30, 2013. Lee 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Lee County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Lee County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Lee County School District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Lee County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Lee County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures
that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, I do not express an opinion on the effectiveness of Lee 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My 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 material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Charles L. Shivers, CPA

Ridgeland, MS
May 30, 2014

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

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CHARLES L. SHIVERS

Certified Public Accountant

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

Superintendent and School Board
Lee County School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2013, which collectively comprise Lee County School District's basic financial statements and have issued my report thereon dated May 30, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. My report differed from the standard report because of a scope limitation due to the timing of the audit engagement, I was unable to observe the counting of the physical inventories included in the Aggregate Remaining Fund Information.

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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported $-0- of classroom supply funds carried over from previous years.

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

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

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and my 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, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles L. Shivers, CPA

Ridgeland, MS
May 30, 2014

Member: AICPA, MSCPA
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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LEE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the basic financial statements:

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
General Fund	Unmodified
Major Fund – Title I Regular Fund	Unmodified
Major Fund – EHA Part B Fund	Unmodified
Major Fund – School Building Fund	Unmodified
Major Fund – Bond 2012 Retirement Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

2. Noncompliance material to the basic financial statements noted? No

3. Internal control over financial reporting:
   a. Material weaknesses identified? Yes
   b. Significant deficiency identified that are not considered to be material weaknesses? Yes

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unmodified

5. Internal control over major programs:
   a. Material weaknesses identified? No
   b. Significant deficiency identified that are not considered to be material weaknesses? None Reported

6. Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

7. Federal program identified as major program:

   a. Child nutrition cluster
      CFDA #: 10.553
      CFDA #: 10.555
   b. Special education cluster
      CFDA #: 84.027
      CFDA#: 84.173

8. The dollar threshold used to distinguish between type A and type B programs: $300,000

9. Auditee qualified as a low-risk auditee? No

10. Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? No

Section II: Financial Statement Findings

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

Finding 2013-01

CONDITION: Upon testing three high school event forms for basketball games, it was noted that the ticket event

forms were not properly completed nor approved by the individual responsible for selling the tickets. The difference between the beginning and ending ticket numbers did not correspond to the number of tickets sold.
CRITERIA: A well designed system of controls would be such that the individuals responsible for selling the tickets at school events would properly account for the tickets sold at their respective gates.
CAUSE OF CONDITION: The cause of the condition is inadequately designed system of controls.
EFFECT OF CONDITION: The effect of this condition could result in errors or irregularities occurring in the reconciling of tickets sold to the cash received.
RECOMMENDATION: It is recommended that the individuals responsible for selling tickets at school events properly complete the school event form and that the sum of ticket sales sold reconcile to the cash deposit for the event.

Finding 2013-02

CONDITION: A high school bookkeeper performed all duties regarding the receipt of activity funds (receipted the funds, entered data into the accounting system, prepared the deposit slip and made the deposit).
CRITERIA: A well designed system of accounting controls for the receipt of activity funds would be such that no one individual performs all aspects of the transaction from beginning to end.
CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system of controls.
EFFECT OF CONDITION: This situation could result in errors occurring in receipt of activity fund transactions (posting, deposits, etc) and those errors not being prevented or detected.
RECOMMENDATION: It is recommended that the duties of receipting activity funds be segregated to the greatest extent possible such that no one individual performs all aspects of the transaction from beginning to end.

Significant deficiencies identified that are considered to be material weaknesses.

Finding 2013-03

CONDITION: There was no independent observation of the year-end Child Nutrition Program inventory account balance. This account balance was material to the financial statements.
CRITERIA: The auditing standards require that an independent observation and testing of a material inventory account balance must be performed.
CAUSE OF CONDITION: The cause of this condition is an absence of controls regarding independent observation and testing of the inventory account balance when that account is material to financial statements.
EFFECT OF CONDITION: The effect of this condition results in a modified opinion on the financial statements.
RECOMMENDATION: It is recommended that the Child Nutrition Program inventory account balance be closely monitored at or near year-end to determine whether the account balance appears to be material to the financial statements. When the account balance appears to be material, then management should employ the services of an independent party to observe and test the year-end procedures performed by the district's staff.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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LCS
LEE COUNTY SCHOOLS
Jimmy Weeks, Superintendent

May 28, 2014

As required by Section 315(c) of OMB Circular A-133, the Lee County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

Finding 2013-01

Corrective Action Plan

a. Contact person responsible for corrective action: Michael Martin, Business Manager

b. Description of corrective action to be taken: The District will design a new game event form that includes the signature of those working the gate. In addition, we will require a complete reconciliation of the number of tickets sold to the amount of money accounted for on the form. We will also provide training for Principals and school bookkeepers.

c. Anticipated completion date of corrective action: July 1, 2014

Finding 2013-02

Corrective Action Plan

a. Contact person responsible for corrective action: Michael Martin, Business Manager

b. Description of correction action to be taken: The District is limited at some of its schools because the number of employees in the office prevents a full segregation of duties. However, we will emphasize to our Principals the importance of segregating duties related to depositing of funds to the greatest extent possible.

c. Anticipated completion date of corrective action: July 1, 2014

Finding 2013-03

Corrective Action Plan

a. Contact person responsible for corrective action: Michael Martin, Business Manager

1280 College View Drive, Tupelo, Mississippi 38804 • P.O. Box 832, Tupelo, Mississippi 38802-0832
(662) 841-9144 • Fax (662) 680-6012

b. Description of correction action to be taken: The District acknowledges that the Child Nutrition inventory balance was material to the financial statements and should have been observed. In our opinion, our internal controls related to the inventory are sufficient. The independent observation of inventory at the end of the fiscal year is not an element of internal control, but instead is an audit procedure normally performed as part of the audit engagement. The timing of the audit contract prevented the auditor from applying those procedures, and because inventory had not previously been material to the financial statements nor been observed by an auditor, we did not anticipate this being an issue for this fiscal year.

   In the future, we will consider the balance of the inventory at year end. If in our judgment inventory is material and we are under contract with an auditor, we will be sure to inform them that inventory may be material and observation may be necessary. If we are not under contract with an auditor, we will consider hiring an independent accounting firm to observe our year-end inventory.

   In either case, the materiality of the inventory is ultimately an auditor calculation, and the District's judgment cannot determine materiality with certainty.

c. Anticipated completion date of corrective action: May 28, 2014

Sincerely,

Jimmy Webb

Superintendent of Education