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**LEE COUNTY SCHOOL DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2010**

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

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# **M. M. WINKLER & ASSOCIATES**

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

Superintendent and School Board  
Lee County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2010, which collectively comprise the Lee County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lee County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010 on our consideration of the Lee County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

- Continued -

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

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

*M. M. Winkler & Associates*

December 3, 2010



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

The discussion and analysis of Lee County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

**FINANCIAL HIGHLIGHTS**

- Total net assets for 2010 increased \$ 2,673,673, including a prior period adjustment of (\$244,039), which represents 6.97% increase from fiscal year 2009. Total net assets for 2009 increased \$1,753,546, including a prior period adjustment of \$ 59,429, which represents a 4.60% increase from fiscal year 2008.
- General revenues amounted to \$ 45,417,151 and \$ 47,370,874, or 76.88% and 83.80% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 13,661,285, or 23.12% of total revenues for 2010, and \$9,159,601, or 16.20 % of total revenues for 2009.
- The District had \$ 56,160,724 and \$ 54,836,358 in expenses for fiscal years 2010 and 2009; only \$13,661,285 for 2010 and \$ 9,159,601 for 2009 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 45,417,151 for 2010 and \$47,370,874 for 2009 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 42,320,681 in revenues and \$ 41,023,238 in expenditures for 2010, and \$ 44,224,387 in revenues and \$ 44,255,066 in expenditures in 2009. The General Fund's fund balance increased by \$ 1,328,252 from 2009 to 2010, and decreased by \$ 593,003 from 2008 to 2009.
- Capital assets, net of accumulated depreciation, decreased by \$ 567,493 for 2010 and increased by \$1,110,663 for 2009. The decrease for 2010 was due to the disposal of seven school buses as well as the increase in accumulated depreciation. Due to a reduction in state funding the school district did not purchase any new buses during 2010 school year and disposed of seven on our older ones.
- Long-term debt increased by \$ 879,683 for 2010, including a prior period adjustment of \$244,039, and decreased by \$ 929,359 for 2009. This increase was due primarily to the issuance of Qualified School Construction Bonds. The liability for compensated absences decreased by \$14,356 for 2010 and increased by \$ 37,180 for 2009.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS – Continued**

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

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

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

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

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

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

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS – Continued**

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

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

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

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

The District adopts an annual operating budget for all governmental funds. Budgetary comparison schedules have been provided for the General Fund and each additional major special revenue fund.

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

Also, included in the other supplemental information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 41,059,998 as of June 30, 2010.

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued**

Table 1 presents a summary of the District's net assets at June 30, 2010 and June 30, 2009.

**Table 1  
Condensed Statement of Net Assets**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>Percentage Change</b>
Current assets	\$ 12,999,787	\$ 11,221,311	15.85 %
Deferred charges - issuance cost	289,560	313,690	-7.69 %
Restricted assets	5,042,195	2,875,720	75.34 %
Capital assets, net	48,435,247	49,002,740	-1.16 %
<b>Total assets</b>	<b>\$ 66,766,789</b>	<b>\$ 63,413,461</b>	<b>5.29 %</b>
Current liabilities	\$ 638,758	\$ 838,786	-23.85 %
Long-term debt outstanding	25,068,033	24,188,350	3.64 %
<b>Total liabilities</b>	<b>\$ 25,706,791</b>	<b>\$ 25,027,136</b>	<b>2.72 %</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	\$ 24,095,247	\$ 25,312,740	-4.81 %
Restricted	5,821,461	3,084,765	88.72 %
Unrestricted	11,143,290	9,988,820	11.56 %
<b>Total net assets</b>	<b>\$ 41,059,998</b>	<b>\$ 38,386,325</b>	<b>6.97 %</b>

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

- Decrease in net capital assets in the amount of \$ 567,493.
- The principal retirement of \$ 2,350,000 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$ 59,078,436 and \$ 56,530,475, respectively. The total cost of all programs and services was \$ 56,160,724 for 2010 and \$ 54,836,358 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**

**Table 2  
Changes in Net Assets**

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 2,060,036	\$ 2,219,816	(7.20) %
Operating grants and contributions	11,601,249	6,939,785	67.17 %
General revenues:			
Property taxes	14,518,660	14,003,649	3.68 %
Grants and contributions not restricted	30,398,389	32,922,472	(7.67) %
Investment earnings	408,394	440,614	(7.31) %
Other	91,708	4,139	2,115.70 %
<b>Total revenues</b>	<b>\$ 59,078,436</b>	<b>\$ 56,530,475</b>	<b>4.51 %</b>
<b>Expenses:</b>			
Instruction	\$ 33,882,252	\$ 32,112,545	5.51 %
Support services	17,819,113	18,166,174	(1.91) %
Non-instructional	3,518,797	3,575,092	(1.57) %
Interest and other expenses on long-term liabilities	940,562	982,547	(4.27) %
<b>Total expenses</b>	<b>\$ 56,160,724</b>	<b>\$ 54,836,358</b>	<b>2.42 %</b>
<b>Increase (Decrease) in net assets</b>	<b>\$ 2,917,712</b>	<b>\$ 1,694,117</b>	<b>72.23 %</b>
<b>Net Assets, July 1, as originally reported</b>	<b>\$ 38,386,325</b>	<b>\$ 36,632,779</b>	<b>4.79 %</b>
<b>Prior Period Adjustment</b>	<b>(244,039)</b>	<b>59,429</b>	<b>(510.64) %</b>
<b>Net Assets, July 1, as restated</b>	<b>\$ 38,142,286</b>	<b>\$ 36,692,208</b>	<b>3.95 %</b>
<b>Net Assets, June 30</b>	<b>\$ 41,059,998</b>	<b>\$ 38,386,325</b>	<b>6.97 %</b>

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**

**Table 3  
Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2010</b>	<b>2009</b>	
Instruction	\$ 33,882,252	\$ 32,112,545	5.51 %
Support services	17,819,113	18,166,174	(1.91) %
Non-instructional	3,518,797	3,575,092	(1.57) %
Interest on long-term liabilities	940,562	982,547	(4.27) %
<b>Total expenses</b>	<b>\$ 56,160,724</b>	<b>\$ 54,836,358</b>	<b>2.42 %</b>

  

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2010</b>	<b>2009</b>	
Instruction	\$ (25,514,384)	\$ (28,515,280)	(10.52) %
Support services	(16,096,815)	(16,205,277)	(0.67) %
Non-instructional	52,322	26,347	98.59 %
Interest on long-term liabilities	(940,562)	(982,547)	(4.27) %
<b>Total net (expense) revenue</b>	<b>\$ (42,499,439)</b>	<b>\$ (45,676,757)</b>	<b>(6.96) %</b>

- Net cost of governmental activities (\$ 42,499,439 for 2010 and \$ 45,676,757 for 2009) was financed by general revenue, which is primarily made up of property taxes (\$ 14,518,660 for 2010 and \$ 14,003,649 for 2009) and state and federal revenues (\$ 30,398,389 for 2010 and \$32,922,472 for 2009).
- Investment earnings amounted to \$ 408,394 for 2010 and \$ 440,614 for 2009.

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

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

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



**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 17,737,199, an increase of \$4,130,974, which includes an increase in inventory of \$ 13,486. \$ 7,579,699 or 42.73% of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$ 10,157,500 or 57.27% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 1,328,252. The fund balance of Other Governmental Funds showed an increase in the amount of \$ 509,258, which includes an increase in reserve for inventory of \$13,486. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I	no increase or decrease
EEF Building and Buses	\$ 2,600
IDEA Part B	no increase or decrease
School Building Project	\$ 80,030
Qualified School Construction Bond	\$ 2,210,834

**BUDGETARY HIGHLIGHTS**

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. The budget amendments for the 2010 school year reflected the State of Mississippi's reduction in funding to school districts.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2010, the District's total capital assets were \$ 69,753,672, including land, school buildings, building improvements, buses, improvements other than buildings, other school vehicles, furniture and equipment. This amount represents an increase of \$ 926,101 from 2009. Total accumulated depreciation as of June 30, 2010, was \$ 21,318,425, and total depreciation expense for the year was \$ 1,717,378, resulting in total net capital assets of \$ 48,435,247.

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued**

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Land	\$ 2,015,275	\$ 2,015,275	0.00 %
Construction in Progress	851,147	-0-	N/A %
Buildings	41,666,630	42,737,984	(2.51) %
Building improvements	736,608	780,211	(5.59) %
Improvements other than buildings	265,480	281,922	(5.83) %
Mobile equipment	2,484,946	2,887,555	(13.94) %
Furniture and equipment	415,161	299,793	38.48 %
<b>Total</b>	<b>\$ 48,435,247</b>	<b>\$ 49,002,740</b>	<b>(1.16) %</b>

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

**Debt Administration.** At June 30, 2010, the District had \$ 25,068,033 in outstanding long-term debt, of which \$2,513,194 is due within one year. The liability for compensated absences decreased \$ 14,356 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 20,665,000	\$ 22,340,000	(7.50) %
Three mill notes payable	675,000	1,350,000	(50.00) %
Shortfall notes payable	244,039	-0-	N/A %
Qualified school construction bonds payable	3,000,000	-0-	N/A %
Compensated absences payable	483,994	498,350	(2.88) %
<b>Total</b>	<b>\$ 25,068,033</b>	<b>\$ 24,188,350</b>	<b>3.64 %</b>

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

**CURRENT ISSUES**

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

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

**LEE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**CURRENT ISSUES** - Continued

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

Enrollment for the 2009-2010 year increased/decreased by 0.70% to 6,731 students.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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## **FINANCIAL STATEMENTS**

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**LEE COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS**

June 30, 2010

Exhibit A

Governmental  
Activities

**ASSETS**

Cash and cash equivalents	\$ 11,854,283
Due from other governments	965,790
Other receivables	39,084
Inventories	140,630
Deferred charges	289,560
Restricted assets	5,042,195
Capital assets, non-depreciable:	
Land	2,015,275
Construction in progress	851,147
Capital assets, net of accumulated depreciation:	
Buildings	41,666,630
Building improvements	736,608
Improvements other than buildings	265,480
Mobile equipment	2,484,946
Furniture and equipment	415,161
Total Assets	<u>\$ 66,766,789</u>

**LIABILITIES**

Accounts payable and accrued liabilities	\$ 273,727
Unearned revenue	31,056
Interest payable on long-term liabilities	333,975
Long-term liabilities, due within one year	
Capital related liabilities	2,435,000
Non-capital related liabilities	78,194
Long-term liabilities, due beyond one year	
Capital related liabilities	21,905,000
Non-capital related liabilities	649,839
Total Liabilities	<u>\$ 25,706,791</u>

**NET ASSETS**

Invested in capital assets, net of related debt	\$ 24,095,247
Restricted net assets:	
Expendable:	
School - based activities	705,393
Debt service	2,742,912
Capital improvements	2,210,834
Unemployment benefits	162,322
Unrestricted	11,143,290
Total Net Assets	<u>\$ 41,059,998</u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2010

Exhibit B

				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 33,882,252	\$ 932,917	\$ 7,434,951	\$ ( 25,514,384 )
Support services	17,819,113	210,247	1,512,051	( 16,096,815 )
Non-instructional	3,518,797	916,872	2,654,247	52,322
Interest on long-term liabilities	<u>940,562</u>	<u>-0-</u>	<u>-0-</u>	( <u>940,562</u> )
Total governmental activities	\$ <u>56,160,724</u>	\$ <u>2,060,036</u>	\$ <u>11,601,249</u>	\$ ( <u>42,499,439</u> )
General Revenues:				
Taxes:				
General purpose levies				\$ 11,167,173
Debt purpose levies				3,351,487
Unrestricted grants and contributions:				
State				30,155,154
Federal				243,235
Unrestricted investment earnings				408,394
Other				<u>91,708</u>
Total General Revenues				\$ <u>45,417,151</u>
Change in Net Assets				\$ <u>2,917,712</u>
Net Assets - Beginning				\$ 38,386,325
Prior Period Adjustment				( <u>244,039</u> )
Net Assets - Beginning - Restated				\$ <u>38,142,286</u>
Net Assets - Ending				\$ <u>41,059,998</u>

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



**LEE COUNTY SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2010

Exhibit C

	MAJOR FUNDS							
	General Fund	Title I Fund	EEF Building and Buses Fund	IDEA Part B Fund	School Building Project Fund	Qualified School Construction Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 7,076,965	\$ -0-	\$ 167,606	\$ -0-	\$ 3,843,016	\$ 2,213,559	\$ 3,595,332	\$ 16,896,478
Due from other governments	487,604	128,042	9,994	121,008	-0-	-0-	219,142	965,790
Other receivables	39,084	-0-	-0-	-0-	-0-	-0-	-0-	39,084
Due from other funds	332,302	-0-	-0-	-0-	-0-	-0-	175,000	507,302
Inventories	-0-	-0-	-0-	-0-	-0-	-0-	140,630	140,630
Total Assets	<u>\$ 7,935,955</u>	<u>\$ 128,042</u>	<u>\$ 177,600</u>	<u>\$ 121,008</u>	<u>\$ 3,843,016</u>	<u>\$ 2,213,559</u>	<u>\$ 4,130,104</u>	<u>\$ 18,549,284</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable and accrued liabilities	\$ 197,209	\$ 2,164	\$ -0-	\$ 1,519	\$ -0-	\$ 2,725	\$ 70,110	\$ 273,727
Due to other funds	-0-	125,878	175,000	119,489	-0-	-0-	86,935	507,302
Unearned revenue	-0-	-0-	-0-	-0-	-0-	-0-	31,056	31,056
Total Liabilities	<u>\$ 197,209</u>	<u>\$ 128,042</u>	<u>\$ 175,000</u>	<u>\$ 121,008</u>	<u>\$ -0-</u>	<u>\$ 2,725</u>	<u>\$ 188,101</u>	<u>\$ 812,085</u>
Fund Balances:								
Reserved for:								
Inventory	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 140,630	\$ 140,630
Ad valorem	159,047	-0-	-0-	-0-	-0-	-0-	-0-	159,047
Capital projects	-0-	-0-	-0-	-0-	-0-	2,210,834	-0-	2,210,834
Debt service	-0-	-0-	-0-	-0-	-0-	-0-	3,076,887	3,076,887
Unemployment benefits	-0-	-0-	-0-	-0-	-0-	-0-	162,322	162,322
Unreserved:								
Designated for, reported in:								
Special revenue funds	-0-	-0-	2,600	-0-	-0-	-0-	562,164	564,764
Capital projects funds	-0-	-0-	-0-	-0-	3,843,016	-0-	-0-	3,843,016
Undesignated, reported in:								
General fund	<u>7,579,699</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>7,579,699</u>
Total Fund Balances	<u>\$ 7,738,746</u>	<u>\$ -0-</u>	<u>\$ 2,600</u>	<u>\$ -0-</u>	<u>\$ 3,843,016</u>	<u>\$ 2,210,834</u>	<u>\$ 3,942,003</u>	<u>\$ 17,737,199</u>
Total Liabilities and Fund Balances	<u>\$ 7,935,955</u>	<u>\$ 128,042</u>	<u>\$ 177,600</u>	<u>\$ 121,008</u>	<u>\$ 3,843,016</u>	<u>\$ 2,213,559</u>	<u>\$ 4,130,104</u>	<u>\$ 18,549,284</u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2010

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 17,737,199
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 21,318,425.	48,435,247
2. Governmental funds recognize bond issuance cost as expenditures when bonds are issued, however, in the government-wide financial statements bond issuance cost are capitalized and amortized over the term of the respective bonds.	289,560
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	( 25,068,033 )
4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	( <u>333,975</u> )
Total Net Assets - Governmental Activities	\$ <u><u>41,059,998</u></u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2010

Exhibit D

	MAJOR FUNDS							
	General Fund	Title I Fund	EEF Building and Buses Fund	IDEA Part B Fund	School Building Project Fund	Qualified School Construction Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:								
Local sources	\$ 12,477,048	\$ -0-	\$ 3,598	\$ -0-	\$ 80,422	\$ 36,106	\$ 4,550,743	\$ 17,147,917
State sources	29,560,410	-0-	174,002	-0-	-0-	-0-	1,719,813	31,454,225
Federal sources	<u>283,223</u>	<u>1,797,712</u>	<u>-0-</u>	<u>1,432,275</u>	<u>-0-</u>	<u>-0-</u>	<u>6,956,314</u>	<u>10,469,524</u>
Total Revenues	\$ <u>42,320,681</u>	\$ <u>1,797,712</u>	\$ <u>177,600</u>	\$ <u>1,432,275</u>	\$ <u>80,422</u>	\$ <u>36,106</u>	\$ <u>13,226,870</u>	\$ <u>59,071,666</u>
EXPENDITURES:								
Instruction	\$ 25,396,742	\$ 1,183,686	\$ -0-	\$ 826,267	\$ -0-	\$ -0-	\$ 5,699,658	\$ 33,106,353
Support services	15,537,062	571,128	-0-	587,455	-0-	-0-	590,238	17,285,883
Noninstructional services	-0-	42,898	-0-	-0-	-0-	-0-	3,327,334	3,370,232
Facilities acquisition and construction	89,434	-0-	-0-	-0-	392	825,272	-0-	915,098
Debt service:								
Principal	-0-	-0-	-0-	-0-	-0-	-0-	2,350,000	2,350,000
Interest	-0-	-0-	-0-	-0-	-0-	-0-	950,017	950,017
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,550</u>	<u>4,550</u>
Total Expenditures	\$ <u>41,023,238</u>	\$ <u>1,797,712</u>	\$ <u>-0-</u>	\$ <u>1,413,722</u>	\$ <u>392</u>	\$ <u>825,272</u>	\$ <u>12,921,797</u>	\$ <u>57,982,133</u>
Excess (Deficiency) of Revenues								
Over Expenditures	\$ <u>1,297,443</u>	\$ <u>-0-</u>	\$ <u>177,600</u>	\$ <u>18,553</u>	\$ <u>80,030</u>	\$ ( <u>789,166</u> )	\$ <u>305,073</u>	\$ <u>1,089,533</u>
Other Financing Sources (Uses):								
Proceeds of QSC bonds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 3,000,000	\$ -0-	\$ 3,000,000
Insurance loss recoveries	11,975	-0-	-0-	-0-	-0-	-0-	-0-	11,975
Sale of other property	14,270	-0-	-0-	-0-	-0-	-0-	-0-	14,270
Operating transfers in	18,767	-0-	-0-	-0-	-0-	-0-	256,835	275,602
Other financing sources	1,710	-0-	-0-	-0-	-0-	-0-	-0-	1,710
Operating transfers out	( <u>15,913</u> )	<u>-0-</u>	( <u>175,000</u> )	( <u>18,553</u> )	<u>-0-</u>	<u>-0-</u>	( <u>66,136</u> )	( <u>275,602</u> )
Total Other Financing Sources (Uses)	\$ <u>30,809</u>	\$ <u>-0-</u>	\$ ( <u>175,000</u> )	\$ ( <u>18,553</u> )	\$ <u>-0-</u>	\$ <u>3,000,000</u>	\$ <u>190,699</u>	\$ <u>3,027,955</u>
Net Change in Fund Balances	\$ 1,328,252	\$ -0-	\$ 2,600	\$ -0-	\$ 80,030	\$ 2,210,834	\$ 495,772	\$ 4,117,488

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, 2010  
- Continued -

Exhibit D

	MAJOR FUNDS							
	General Fund	Title I Funds	EEF Building and Buses Fund	IDEA Part B Fund	School Building Project Fund	Qualified School Construction Bond Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:								
July 1, 2009	\$ 6,410,494	\$ -0-	\$ -0-	\$ -0-	\$ 3,762,986	\$ -0-	\$ 3,432,745	\$ 13,606,225
Increase (Decrease) in reserve for inventory	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>13,486</u>	<u>13,486</u>
June 30, 2010	\$ <u><u>7,738,746</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>2,600</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>3,843,016</u></u>	\$ <u><u>2,210,834</u></u>	\$ <u><u>3,942,003</u></u>	\$ <u><u>17,737,199</u></u>

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

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

For the Year Ended June 30, 2010

	<u>Exhibit D-1</u> <u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 4,117,488
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$ 1,171,070 and the depreciation expense amounted to \$ 1,717,378.	( 546,308 )
2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance is reported as long-term liabilities in the Statement of Net Assets.	( 3,000,000 )
3. Governmental funds report the effect of issuance costs when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Assets.	( 24,130 )
4. The repayment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	2,350,000
5. Governmental funds recognize interest on long-term debt when it becomes due, due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	14,005
6. The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds but is reported as a reduction of net capital assets on the Statement of Activities, along with any gain or loss	( 21,185 )
7. An increase in the inventory reserve is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	13,486
8. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>14,356</u>
Change in Net Assets of Governmental Activities	\$ <u><u>2,917,712</u></u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
June 30, 2010

Exhibit E

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>3,128,100</u>
Total Assets	\$ <u><u>3,128,100</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 2,983,788
Due to student clubs	<u>144,312</u>
Total Liabilities	\$ <u><u>3,128,100</u></u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

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

**B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

**B. BASIS OF PRESENTATION - Continued**

**Government-wide Financial Statements - continued**

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. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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

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

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

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

**Qualified School Construction Bond Fund** - This capital project fund is used to account for proceeds from issuance of long-term debt and expenditures for construction and renovations of school buildings.

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



**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

**B. BASIS OF PRESENTATION - Continued**

**Fund Financial Statements - Continued**

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUND TYPES**

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

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

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

**FIDUCIARY FUNDS**

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - Continued**

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

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

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

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

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

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

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

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

**LEE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2010

-Continued-

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

**D. ACCOUNT CLASSIFICATIONS**

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

**E. ENCUMBRANCES**

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

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

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

**Cash and cash equivalents**

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

**Investments**

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

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

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

**2. Receivables and Payables**

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

**2. Receivables and Payables - Continued**

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

**3. Due From Other Governments**

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

**4. Inventories and Prepaid Items**

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

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

**5. Deferred Charges**

Bond issuance costs incurred on bond issues and have been deferred and are being amortized over the life of the bonds using the straight line method on the Statement of Net Assets. Total amortization for the year ended June 30, 2010, was \$ 24,130.

**6. Restricted Assets**

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

**7. Capital Assets**

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have an initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

**7. Capital Assets - Continued**

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 those thresholds.

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

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

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

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

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

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

**10. Fund Equity**

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

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

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

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

**Reserved for ad valorem** - An account used to record the ad valorem taxes collected in excess of legal limitation for the current fiscal year.

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

**10. Fund Equity - Continued**

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

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

**Unreserved - designated for, reported in special revenue funds** - An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future uses.

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

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

**NOTE 2. CASH AND CASH EQUIVALENTS**

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

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

**NOTE 2. CASH AND CASH EQUIVALENTS - Continued**

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 16,896,478 and \$ 3,128,100, respectively. The bank balance was \$ 22,820,089.

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

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

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

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Title I fund	\$ 125,878
	IDEA Part B Fund	119,489
	Other governmental funds	86,935
Other governmental funds	EEF building and buses	<u>175,000</u>
Total		\$ <u><u>507,302</u></u>

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

**B. Inter-fund Transfers**

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 15,913
EEF building and buses fund	Other governmental funds	175,000
IDEA Part B fund	General fund	18,553
Other governmental funds	General fund	214
Other governmental funds	Other governmental funds	<u>65,922</u>
Total		\$ <u><u>275,602</u></u>

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



**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2009

-Continued-

**NOTE 4. RESTRICTED ASSETS**

Restricted assets represent the cash balances of debt service funds and a capital project fund whose balances are legally restricted and may not be used except for their restricted purposes.

**NOTE 5. CAPITAL ASSETS**

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

	Balance 7/1/2009	Additions	Retirements	Capitalized Construction	Balance 6/30/2010
<b>Non-depreciable capital assets:</b>					
Land	\$ 2,015,275	\$ -0-	\$ -0-	\$ -0-	\$ 2,015,275
Construction in progress	<u>-0-</u>	<u>851,147</u>	<u>-0-</u>	<u>-0-</u>	<u>851,147</u>
Total non-depreciable capital assets	\$ <u>2,015,275</u>	\$ <u>851,147</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>2,866,422</u>
<b>Depreciable capital assets:</b>					
Buildings	\$ 57,116,784	\$ -0-	\$ -0-	\$ -0-	\$ 57,116,784
Building improvements	1,090,083	-0-	-0-	-0-	1,090,083
Improvements other than buildings	569,177	-0-	-0-	-0-	569,177
Mobile equipment	6,820,322	55,982	208,167	-0-	6,668,137
Furniture and equipment	<u>1,215,930</u>	<u>263,941</u>	<u>36,802</u>	<u>-0-</u>	<u>1,443,069</u>
Total depreciable capital assets	\$ <u>66,812,296</u>	\$ <u>319,923</u>	\$ <u>244,969</u>	\$ <u>-0-</u>	\$ <u>66,887,250</u>
<b>Less accumulated depreciation:</b>					
Buildings	\$ 14,378,800	\$ 1,071,354	\$ -0-	\$ -0-	\$ 15,450,154
Building improvements	309,872	43,603	-0-	-0-	353,475
Improvements other than buildings	287,255	16,442	-0-	-0-	303,697
Mobile equipment	3,932,767	437,774	187,350	-0-	4,183,191
Furniture and equipment	<u>916,137</u>	<u>148,205</u>	<u>36,434</u>	<u>-0-</u>	<u>1,027,908</u>
Total accumulated depreciation	\$ <u>19,824,831</u>	\$ <u>1,717,378</u>	\$ <u>223,784</u>	\$ <u>-0-</u>	\$ <u>21,318,425</u>
Total depreciable capital assets, net	\$ <u>46,987,465</u>	\$ <u>( 1,397,455)</u>	\$ <u>21,185</u>	\$ <u>-0-</u>	\$ <u>45,568,825</u>
Governmental activities capital assets, net	\$ <u>49,002,740</u>	\$ <u>( 546,308)</u>	\$ <u>21,185</u>	\$ <u>-0-</u>	\$ <u>48,435,247</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 1,020,580
Support services	501,131
Non-instructional	<u>195,667</u>
	\$ <u>1,717,378</u>

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2010

-Continued-

**NOTE 5. CAPITAL ASSETS - Continued**

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

Commitments under contracts as of June 30, 2010 are summarized as follows:

<u>Governmental Activities:</u>	<u>Spent to June 30, 2010</u>	<u>Remaining Commitment</u>
Guntown Addition	\$ 94,753	\$ 668,451
HVAC Renovation	<u>756,394</u>	<u>1,808,924</u>
Total	<u>\$ 851,147</u>	<u>\$ 2,477,375</u>

**NOTE 6. LONG-TERM LIABILITIES**

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

	<u>Balance 7/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2010</u>	<u>Amounts Due Within One Year</u>
A. General obligation bonds payable	\$ 22,340,000	\$ -0-	\$ 1,675,000	\$ 20,665,000	\$ 1,760,000
B. Three mill notes payable	1,350,000	-0-	675,000	675,000	675,000
C. Shortfall notes payable	-0-	244,039*	-0-	244,039	78,194
D. Qualified school construction bonds payable	-0-	3,000,000	-0-	3,000,000	-0-
D. Compensated absences payable	<u>498,350</u>	<u>-0-</u>	<u>14,356</u>	<u>483,994</u>	<u>-0-</u>
Total	<u>\$ 24,188,350</u>	<u>\$ 3,244,039</u>	<u>\$ 2,364,356</u>	<u>\$ 25,068,033</u>	<u>\$ 2,513,194</u>

\* Prior period adjustment for shortfall note recorded in prior year that was not reported as long-term debt.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

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

**A. General Obligation Bonds Payable**

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
General obligation bonds, Refunding Bonds Series 1999	4.20%	08-01-1999	08-01-2013	\$ 8,015,000	\$ 3,545,000
General obligation bonds, Series 2002	4.25%-5.15%	09-01-2002	09-01-2022	<u>19,650,000</u>	<u>17,120,000</u>
Total				<u>\$ 27,665,000</u>	<u>\$ 20,665,000</u>

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

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 825,000	\$ 139,026	\$ 964,026
2012	865,000	102,052	967,052
2013	905,000	62,886	967,886
2014	<u>950,000</u>	<u>21,375</u>	<u>971,375</u>
Total	<u>\$ 3,545,000</u>	<u>\$ 325,339</u>	<u>\$ 3,870,339</u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

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

General obligation bond series issue of September 1, 2002

Year Ending June 30	Principal	Interest	Total
2011	\$ 935,000	\$ 723,271	\$ 1,658,271
2012	990,000	687,762	1,677,762
2013	1,040,000	642,200	1,682,200
2014	1,100,000	585,725	1,685,725
2015	1,160,000	533,650	1,693,650
2016 - 2020	6,825,000	1,887,225	8,712,225
2021 - 2023	5,070,000	354,888	5,424,888
Total	\$ <u>17,120,000</u>	\$ <u>5,414,721</u>	\$ <u>22,534,721</u>

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

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2011	\$ 1,760,000	\$ 862,297	\$ 2,622,297
2012	1,855,000	789,814	2,644,814
2013	1,945,000	705,086	2,650,086
2014	2,050,000	607,100	2,657,100
2015	1,160,000	533,650	1,693,650
2016 - 2020	6,825,000	1,887,225	8,712,225
2021 - 2023	5,070,000	354,888	5,424,888
Total	\$ <u>20,665,000</u>	\$ <u>5,740,060</u>	\$ <u>26,405,060</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2010, the amount of outstanding bonded indebtedness was equal to 7.89% of property assessments as of October 1, 2009.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

**B. Three Mill Notes Payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Three Mill Notes, 2009	1.97	6-23-2009	9-15-2010	\$ 675,000	\$ 675,000
Total				\$ 675,000	\$ 675,000

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

Three mill notes payable issue of June 23, 2009

Year Ending June 30	Principal	Interest	Total
2011	\$ 675,000	\$ 16,285	\$ 691,285
Total	\$ 675,000	\$ 16,285	\$ 691,285

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

**C. Shortfall Notes Payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Shortfall Loan 2009	3.25%	8-26-2009	8-25-2012	\$ 244,039	\$ 244,039
Total				\$ 244,039	\$ 244,039

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

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

**C. Shortfall Notes Payable - Continued**

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

Shortfall notes payable issued

Year Ending June 30	Principal	Interest	Total
2011	\$ 78,194	\$ 9,747	\$ 87,941
2012	81,299	6,642	87,941
2013	84,546	3,395	87,941
Total	\$ <u>244,039</u>	\$ <u>19,784</u>	\$ <u>263,823</u>

This debt will be retired from the General Fund.

**D. Qualified School Construction Bonds Payable**

As more fully explained in Note 12, 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	Amounts	
				Issued	Outstanding
Qualified School Construction					
Bond	0.94%	12/22/2009	9-15-2024	\$ <u>3,000,000</u>	\$ <u>3,000,000</u>
Total				\$ <u>3,000,000</u>	\$ <u>3,000,000</u>

**E. Compensated Absences Payables**

As more fully explained in Note 1(F)(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. OTHER COMMITMENTS**

Commitments under construction contracts are described in Note 5.

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2010, 2009, and 2008 were \$ 3,746,865, \$ 3,570,995 and \$ 3,482,696, respectively, which equaled the required contributions for each year.

**NOTE 9. PRIOR PERIOD ADJUSTMENTS**

A summary of significant net assets adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Shortfall note recorded in prior year was not reported as long-term debt.	\$ <u>244,039</u>
Total	\$ <u><u>244,039</u></u>

**NOTE 10. CONTINGENCIES**

**Federal Grants**

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

**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

**NOTE 10. CONTINGENCIES - Continued**

**Litigation**

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

**NOTE 11. RISK MANAGEMENT**

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

**NOTE 12. QUALIFIED SCHOOL CONSTRUCTION BONDS**

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

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2010 was \$ -0-. 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.

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 10,000
2012	60,000
2013	60,000
2014	236,000
2015	238,500
2016 - 2020	1,195,500
2021 - 2025	<u>1,200,000</u>
Total	\$ <u><u>3,000,000</u></u>



**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2010

-Continued-

**NOTE 13. VOCATIONAL SCHOOL CONSORTIUM**

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

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

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

**NOTE 14. SUBSEQUENT EVENTS**

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Lee County School District evaluated the activity of the district through December 3, 2010 (the date the financial statement were available to be issued), and determined there were no subsequent events that require disclosure in the notes to the financial statements.

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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, 2010

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP) (Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	\$ 12,361,088	\$ 12,477,048	\$ 12,477,048	\$ 115,960	\$ -0-
State sources	32,552,706	29,560,410	29,560,410	( 2,992,296)	-0-
Federal sources	<u>112,000</u>	<u>283,223</u>	<u>283,223</u>	<u>171,223</u>	<u>-0-</u>
Total Revenues	\$ <u>45,025,794</u>	\$ <u>42,320,681</u>	\$ <u>42,320,681</u>	\$ ( <u>2,705,113</u> )	\$ <u>-0-</u>
Expenditures:					
Instruction	\$ 25,980,264	\$ 25,396,742	\$ 25,396,742	\$ 583,522	\$ -0-
Support services	16,138,837	15,537,062	15,537,062	601,775	-0-
Non-instructional services	1,320	-0-	-0-	1,320	
Facilities acquisition and construction	<u>3,005,500</u>	<u>89,434</u>	<u>89,434</u>	<u>2,916,066</u>	<u>-0-</u>
Total Expenditures	\$ <u>45,125,921</u>	\$ <u>41,023,238</u>	\$ <u>41,023,238</u>	\$ <u>4,102,683</u>	\$ <u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ ( <u>100,127</u> )	\$ <u>1,297,443</u>	\$ <u>1,297,443</u>	\$ <u>1,397,570</u>	\$ <u>-0-</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	\$ -0-	\$ 11,975	\$ 11,975	\$ 11,975	\$ -0-
Sale of other property	1,000	14,270	14,270	13,270	-0-
Operating transfers in	1,303,463	18,767	18,767	( 1,284,696)	-0-
Other financing uses	-0-	1,710	1,710	1,710	-0-
Operating transfers out	( <u>1,858,976</u> )	( <u>15,913</u> )	( <u>15,913</u> )	<u>1,843,063</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	\$ ( <u>554,513</u> )	\$ <u>30,809</u>	\$ <u>30,809</u>	\$ <u>585,322</u>	\$ <u>-0-</u>
Net Change in Fund Balances	\$ ( <u>654,640</u> )	\$ <u>1,328,252</u>	\$ <u>1,328,252</u>	\$ <u>1,982,892</u>	\$ <u>-0-</u>
Fund Balances:					
July 1, 2009	<u>6,385,000</u>	<u>6,410,494</u>	<u>6,410,494</u>	<u>25,494</u>	<u>-0-</u>
June 30, 2010	\$ <u>5,730,360</u>	\$ <u>7,738,746</u>	\$ <u>7,738,746</u>	\$ <u>2,008,386</u>	\$ <u>-0-</u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND**  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variances	
	Original	Final	(GAAP)	Original	Final
			(Basis)	to Final	to Actual
Revenues:					
Federal sources	\$ 1,645,466	\$ 1,797,712	\$ 1,797,712	\$ 152,246	\$ -0-
Total Revenues	\$ 1,645,466	\$ 1,797,712	\$ 1,797,712	\$ 152,246	\$ -0-
Expenditures:					
Instruction	\$ 898,220	\$ 1,183,686	\$ 1,183,686	\$( 285,466)	\$ -0-
Support services	445,368	571,128	571,128	( 125,760)	
Noninstructional services	31,181	42,898	42,898	( 11,717)	-0-
Total Expenditures	\$ 1,374,769	\$ 1,797,712	\$ 1,797,712	\$( 422,943)	\$ -0-
Excess (Deficiency) of Revenues Over Expenditures	\$ 270,697	\$ -0-	\$ -0-	\$( 270,697)	\$ -0-
Net Change in Fund Balances	\$ 270,697	\$ -0-	\$ -0-	\$( 270,697)	\$ -0-
Fund Balances:					
July 1, 2009	-0-	-0-	-0-	-0-	-0-
June 30, 2010	\$ 270,697	\$ -0-	\$ -0-	\$( 270,697)	\$ -0-

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE EEF BUILDING**  
**AND BUSES FUND**  
For the Year Ended June 30, 2010

			Variances		
Budgeted Amounts			Actual	Positive (Negative)	
Original	Final		(GAAP)	Original	Final
			(Basis)	to Final	to Actual
Revenues:					
Local sources	\$ -0-	\$ 3,598	\$ 3,598	\$ 3,598	\$ -0-
State sources	<u>211,396</u>	<u>174,002</u>	<u>\$ 174,002</u>	<u>\$ ( 37,394)</u>	<u>\$ -0-</u>
Total Revenues	<u>\$ 211,396</u>	<u>\$ 177,600</u>	<u>\$ 177,600</u>	<u>\$ ( 33,796)</u>	<u>\$ -0-</u>
Expenditures:					
Support services	<u>\$ 36,396</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 36,396</u>	<u>\$ -0-</u>
Total Expenditures	<u>\$ 36,396</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 36,396</u>	<u>\$ -0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 175,000</u>	<u>\$ 177,600</u>	<u>\$ 177,600</u>	<u>\$ 2,600</u>	<u>\$ -0-</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>\$ ( 175,000)</u>	<u>\$ ( 175,000)</u>	<u>\$ ( 175,000)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Total Other Financing Sources (Uses)	<u>\$ ( 175,000)</u>	<u>\$ ( 175,000)</u>	<u>\$ ( 175,000)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Net Change in Fund Balances	<u>\$ -0-</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ -0-</u>
Fund Balances:					
July 1, 2009	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2010	<u>\$ -0-</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ -0-</u>

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

**LEE COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE IDEA PART B FUND**  
For the Year Ended June 30, 2010

			Actual (GAAP) (Basis)	Variances	
	Budgeted Amounts			Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,469,863	\$ 1,432,275	\$ 1,432,275	\$ ( 37,588)	\$ -0-
Total Revenues	\$ 1,469,863	\$ 1,432,275	\$ 1,432,275	\$ ( 37,588)	\$ -0-
Expenditures:					
Instruction	\$ 869,463	\$ 826,267	\$ 826,267	\$ 43,196	\$ -0-
Support services	575,400	587,455	587,455	( 12,055)	-0-
Total Expenditures	\$ 1,444,863	\$ 1,413,722	\$ 1,413,722	\$ 31,141	\$ -0-
Excess (Deficiency) of Revenues Over Expenditures	\$ 25,000	\$ 18,553	\$ 18,553	\$ ( 6,447)	\$ -0-
Other Financing Sources (Uses):					
Operating transfers out	\$ ( 25,000)	( 18,553)	( 18,553)	\$ 6,447	\$ -0-
Total Other Financing Sources (Uses)	\$ ( 25,000)	( 18,553)	( 18,553)	\$ 6,447	\$ -0-
Net Change in Fund Balances	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Fund Balances:					
July 1, 2009	-0-	-0-	-0-	-0-	-0-
June 30, 2010	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

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



**LEE COUNTY SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2010

**Budgetary Comparison Schedule**

**Note 1: Basis of Presentation**

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

**Note 2: Budget Amendments and Revisions**

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

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## **SUPPLEMENTAL INFORMATION**

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**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U. S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 659,486
National School Lunch Program	10.555	<u>2,269,615</u>
Total Child Nutrition Cluster		\$ <u>2,929,101</u>
ARRA - Child Nutrition Discretionary Grants	10.579	\$ <u>36,028</u>
Total Passed-Through Mississippi Department of Education		\$ <u>2,965,129</u>
Total U. S. Department of Agriculture		\$ <u>2,965,129</u>
<b>Federal Communications Commission</b>		
Administered through the Universal Service		
Administrative Company:		
The School and Libraries Program of the Universal		
Service Fund	32.XXX	\$ <u>3,963</u>
Total Federal Communications Commission		\$ <u>3,963</u>
<b>U. S. Department of Education</b>		
Passed-through Mississippi Department of Education:		
Career and Technical Education - Basic Grants to States	84.048	\$ 39,516
Safe and Drug-Free Schools and Communities - State Grants	84.186	26,593
Education Technology - State Grants	84.318	15,382
Rural Education	84.358	104,208
Improving Teacher Quality - State Grants	84.367	340,830
ARRA - Education for Homeless Children and Youth	84.387	20,955
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	<u>2,429,500</u>
Subtotal		\$ <u>2,976,984</u>
Title I, Part A Cluster:		
Title I - Grants to Local Educational Agencies	84.010	\$ 1,797,712
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>595,064</u>
Total Title I, Part A Cluster		\$ <u>2,392,776</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	\$ 1,498,384
Special Education - Preschool Grants	84.173	60,100
ARRA - Special Education - Grants to States	84.391	688,075
ARRA - Special Education - Preschool Grants	84.392	<u>187</u>
Total Special Education Cluster		\$ <u>2,246,746</u>
Total Passed-through Mississippi Department of Education		\$ <u>7,616,506</u>
Total U. S. Department of Education		\$ <u>7,616,506</u>

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2010

-Continued-

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U. S. Department of Health and Human Services</b>		
Passed-through Mississippi Department of Health and Human Services:		
Medical Assistance Program	93.778	\$ <u>39,988</u>
Total Passed-through Mississippi Department Health and Human Services		\$ <u>39,988</u>
Total U.S. Department of Health and Human Services		\$ <u>39,988</u>
Total for all Federal Awards		\$ <u><u>10,625,586</u></u>

**NOTES TO SCHEDULE**

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

Note 2: The expenditure amounts include transfers out.

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

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER**  
**EXPENDITURES - GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2010

<u>Expenditures</u>	<u>Total</u>	Instruction and Other Student <u>Instructional</u> <u>Expenditures</u>	<u>General</u> <u>Administration</u>	<u>School</u> <u>Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 42,557,709	\$ 33,312,198	\$ 1,388,113	\$ 3,257,310	\$ 4,600,088
Other	<u>15,424,424</u>	<u>4,719,200</u>	<u>295,078</u>	<u>16,790</u>	<u>10,393,356</u>
Total	\$ <u>57,982,133</u>	\$ <u>38,031,398</u>	\$ <u>1,683,191</u>	\$ <u>3,274,100</u>	\$ <u>14,993,444</u>
Total number of students *	<u>6,419</u>				
Cost per student	\$ <u><u>9,033</u></u>	\$ <u><u>5,925</u></u>	\$ <u><u>262</u></u>	\$ <u><u>510</u></u>	\$ <u><u>2,336</u></u>

**Notes to 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.

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

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

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

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## **OTHER SUPPLEMENTAL INFORMATION**

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

	<u>2010</u>	<u>2009*</u>	<u>2008*</u>	<u>2007*</u>
Revenues:				
Local sources	\$ 12,477,048	\$ 12,379,675	\$ 12,154,081	\$ 11,636,700
State sources	29,560,410	31,621,657	32,259,102	28,717,429
Federal sources	<u>283,223</u>	<u>223,055</u>	<u>326,061</u>	<u>193,234</u>
Total	\$ <u>42,320,681</u>	\$ <u>44,224,387</u>	\$ <u>44,739,244</u>	\$ <u>40,547,363</u>
Expenditures:				
Instruction	\$ 25,396,742	\$ 26,998,829	\$ 26,347,371	\$ 24,794,980
Support services	15,537,062	16,881,218	16,350,104	14,339,056
Non-instructional services	-0-	19	-0-	9,169
Facilities acquisition and construction	<u>89,434</u>	<u>375,000</u>	<u>463,789</u>	<u>656,282</u>
Total Expenditures	\$ <u>41,023,238</u>	\$ <u>44,255,066</u>	\$ <u>43,161,264</u>	\$ <u>39,799,487</u>
Excess (Deficiency) of Revenues over Expenditures	\$ <u>1,297,443</u>	\$( <u>30,679</u> )	\$ <u>1,577,980</u>	\$ <u>747,876</u>
Other Financing Sources (Uses)				
Proceeds of loans	\$ -0-	\$ 1,350,000	\$ 650,000	\$ 650,000
Insurance loss recoveries	11,975	-0-	24,550	-0-
Sale of other property	14,270	-0-	-0-	-0-
Operating transfers in	18,767	17,154	15,643	15,643
Other financing sources	1,710	4,139	-0-	13,331
Operating transfers out	( <u>15,913</u> )	( <u>1,933,617</u> )	( <u>2,197,483</u> )	( <u>1,551,042</u> )
Total Other Financing Sources (Uses)	\$ <u>30,809</u>	\$( <u>562,324</u> )	\$ ( <u>1,507,290</u> )	\$ ( <u>872,068</u> )
Net Change in Fund Balances	\$ <u>1,328,252</u>	\$( <u>593,003</u> )	\$ ( <u>70,690</u> )	\$ ( <u>124,192</u> )
Fund Balances:				
Beginning of Period	\$ <u>6,410,494</u>	\$ <u>7,003,497</u>	\$ <u>6,932,807</u>	\$ <u>7,056,999</u>
End of Period	\$ <u><u>7,738,746</u></u>	\$ <u><u>6,410,494</u></u>	\$ <u><u>7,003,497</u></u>	\$ <u><u>6,932,807</u></u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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

For the Last Four Years  
**“UNAUDITED”**

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 17,147,917	\$ 16,736,263	\$ 16,576,415	\$ 15,582,107
State sources	31,454,225	33,364,053	33,974,399	29,883,864
Federal sources	<u>10,469,524</u>	<u>6,426,020</u>	<u>5,956,742</u>	<u>5,829,601</u>
Total	\$ <u>59,071,666</u>	\$ <u>56,526,336</u>	\$ <u>56,507,556</u>	\$ <u>51,295,572</u>
Expenditures:				
Instruction	\$ 33,106,353	\$ 31,125,810	\$ 30,226,185	\$ 28,881,079
Support services	17,285,883	18,337,445	17,673,167	15,595,868
Noninstructional services	3,370,232	3,383,920	3,229,080	3,007,467
Facilities acquisition and construction	915,098	2,081,353	1,172,732	1,248,599
Debt service:				
Principal	2,350,000	2,316,539	2,074,934	1,947,500
Interest	950,017	1,017,858	1,077,295	1,140,099
Other	<u>4,550</u>	<u>8,446</u>	<u>6,525</u>	<u>6,539</u>
Total Expenditures	\$ <u>57,982,133</u>	\$ <u>58,271,371</u>	\$ <u>55,459,918</u>	\$ <u>51,827,151</u>
Excess (Deficiency) of Revenues over Expenditures	\$ <u>1,089,533</u>	\$ ( <u>1,745,035</u> )	\$ <u>1,047,638</u>	\$ ( <u>531,579</u> )
Other Financing Sources (Uses)				
Proceeds of bonds	\$ 3,000,000	\$ -0-	\$ -0-	\$ -0-
Proceeds of loans	-0-	1,350,000	650,000	650,000
Insurance loss recoveries	11,975	-0-	24,550	-0-
Sale of other property	14,270	-0-	-0-	-0-
Operating transfers in	275,602	1,950,771	2,213,126	1,566,685
Other financing sources	1,710	4,139	-0-	15,077
Operating transfers out	( <u>275,602</u> )	( <u>1,950,771</u> )	( <u>2,213,126</u> )	( <u>1,566,685</u> )
Total Other Financing Sources (Uses)	\$ <u>3,027,955</u>	\$ <u>1,354,139</u>	\$ <u>674,550</u>	\$ <u>665,077</u>
Net Change in Fund Balances	\$ <u>4,117,488</u>	\$ ( <u>390,896</u> )	\$ <u>1,722,188</u>	\$ <u>133,498</u>
Fund Balances:				
Beginning of Period	\$ 13,606,225	\$ 13,912,328	\$ 12,190,296	\$ 12,019,433
Prior Period Adjustment(s)	<u>-0-</u>	<u>59,429</u>	<u>-0-</u>	<u>-0-</u>
Beginning of Period, as Restated	\$ <u>13,606,225</u>	\$ <u>13,971,757</u>	\$ <u>12,190,296</u>	\$ <u>12,019,433</u>
Increase (Decrease) in reserve for Inventory	\$ <u>13,486</u>	\$ <u>25,364</u>	\$ ( <u>156</u> )	\$ <u>37,365</u>
End of Period	\$ <u><u>17,737,199</u></u>	\$ <u><u>13,606,225</u></u>	\$ <u><u>13,912,328</u></u>	\$ <u><u>12,190,296</u></u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

## **REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

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# **M. M. WINKLER & ASSOCIATES**

## ***Certified Public Accountants***

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

Superintendent and School Board  
Lee County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2010, which collectively comprise the Lee County School District's basic financial statements and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

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

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

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

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

-Continued-

**Compliance and Other Matters**

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

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

*M. M. Winkler & Associates*

December 3, 2010



# **M. M. WINKLER & ASSOCIATES**

## ***Certified Public Accountants***

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

Superintendent and School Board  
Lee County School District

#### **Compliance**

We have audited the compliance of the Lee County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The school district's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on school district's compliance based on our audit.

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

In our opinion, Lee County School District complied, in all material respects, with the 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, 2010.

#### **Internal Control Over Compliance**

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

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

- Continued -

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

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

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

*M. M. Winkler & Associates*

December 3, 2010

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

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# **M. M. WINKLER & ASSOCIATES**

## ***Certified Public Accountants***

221 Franklin Street - P. O. Box 499  
Tupelo, Mississippi 38802  
(662) 842-4641 or Fax (662) 842-4646  
E-Mail info@mmwinkler.com

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

Superintendent and School Board  
Lee County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2010, which collectively comprise Lee County School District's basic financial statements and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

-Continued-

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

*M. M. Winkler & Associates*

December 3, 2010

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2010

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

***Financial Statements:***

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued on the financial statements:                              | Unqualified   |
| 2. Material noncompliance relating to the financial statements?                              | No            |
| 3. Internal control over financial reporting:  |               |
| a. Material weakness(es) identified?   | No            |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |

***Federal Awards:***

- |  |               |
|--|---------------|
| 4. Type of auditors' report issued on compliance for major federal programs:   | Unqualified   |
| 5. Internal control over major programs:   |               |
| a. Material weakness(es) identified?   | No            |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses?   | None Reported |
| 6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  | No            |
| 7. Federal programs identified as major programs:  |               |
| Cluster: Title I, Part A Cluster   |               |
| CFDA#: 84.010; CDFA#: 84.389   |               |
| Cluster: Special Education   |               |
| CFDA#: 84.027; CFDA#: 84.173; CFDA#: 84.391;   |               |
| CDFA#: 84.392  |               |
| State Fiscal Stabilization Fund - Educational State Grants   |               |
| CFDA#: 84.394  |               |
| Improving Teacher Quality  |               |
| CFDA#: 84.367  |               |
| 8. The dollar threshold used to distinguish between type A and type B programs:  | \$ 318,768    |
| 9. Auditee qualified as a low-risk auditee?  | Yes           |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No            |

**LEE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2010

- Continued -

**Section 2: Financial Statements Findings**

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

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

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