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**LEAKE COUNTY SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2005**

**LEAKE COUNTY SCHOOL DISTRICT**

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**LEAKE COUNTY SCHOOL DISTRICT  
FINANCIAL AUDIT REPORT**



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

November 4, 2005

Superintendent and School Board  
Leake County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District as of and for the year ended June 30, 2005, which collectively comprise the Leake County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Leake 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 opinion.

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 Leake County School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of the Leake County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (4) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (35) through (40) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leake County School District's basic financial statements. The 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 the purposes of additional analysis. 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.

Philadelphia, Mississippi

*Watkins, Ward and Stafford PLLC*

**LEAKE COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MELANIE H. HARTLEY  
Superintendent of Education

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# Department of Education

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### LEAKE COUNTY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Leake County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

#### FINANCIAL HIGHLIGHTS

- Total net assets increased \$778,023, consisting of change in net assets of \$779,229 and a prior period adjustment of (\$1,206), which represents 7% increase from fiscal year ending June 30, 2004.
- General revenues account for \$16,753,672 in revenue, or 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,815,470 or 26% of total revenues.
- The District had \$21,789,913 in expenses; only \$5,815,470 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,753,672 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,228,645 in revenues and \$15,071,644 in expenditures. The General Fund's fund balance increased \$404,049 over the prior year. The increase represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.
- Capital assets, net of accumulated depreciation, decreased by \$285,885.

- Long-term debt decreased by \$465,000. The decrease was due to scheduled principal payments on outstanding debt. No additional long-term debt was incurred during the fiscal year ended June 30, 2005.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found in this report.

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

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

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

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

The basic governmental fund financial statements can be found in this report.

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

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

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

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

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included as supplementary information in this report. Also included in the supplemental information is a schedule of instructional, administrative and other expenditures of governmental funds.

## 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 \$12,684,269 as of June 30, 2005.

By far the largest portion of the District's net assets (53%) is reflected in its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal year ended:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 7,402,265	6,849,047
Capital assets, net	<u>12,503,754</u>	<u>12,789,639</u>
<b>Total Assets</b>	<u>19,906,019</u>	<u>19,638,686</u>
Current liabilities	146,110	219,088
Long-term debt outstanding	<u>7,075,640</u>	<u>7,513,352</u>
<b>Total Liabilities</b>	<u>7,221,750</u>	<u>7,732,440</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	6,719,778	6,547,999
Restricted	2,719,253	2,489,770
Unrestricted	<u>3,245,238</u>	<u>2,868,477</u>
<b>Total Net Assets</b>	<u>\$ 12,684,269</u>	<u>11,906,246</u>

The following is a significant current year transaction that had an impact on the Statement of Net Assets during the year ending June 30, 2005.

- Long-term debt principal of \$465,000 was retired.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2005, were \$22,569,142. This represents an increase of \$1,530,926, or 7%, from the prior year. The total cost of all programs and services was \$21,789,913. This represents an increase of \$2,189,334, or 8%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
<b>Revenues:</b>		
Program revenues	\$ 5,815,470	5,064,426
General revenues	<u>16,753,672</u>	<u>15,973,790</u>
<b>Total Revenues</b>	<u>22,569,142</u>	<u>21,038,216</u>
<b>Expenses:</b>		
Instruction	11,823,992	10,847,737
Support services	8,086,549	6,955,518
Non-instructional	1,472,841	1,404,430
Sixteenth section	76,615	30,178
Interest and other expenses on long-term liabilities	<u>329,916</u>	<u>362,716</u>
<b>Total Expenses</b>	<u>21,789,913</u>	<u>19,600,579</u>
<b>Increase in Net Assets</b>	<u>\$ 779,229</u>	<u>1,437,637</u>

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for the years ending June 30, 2005 and June 30, 2004. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>		<u>Total Net (Expense) Revenue</u>	
	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Instruction	\$ 11,823,992	10,847,737	( 7,826,281)	( 7,478,212)
Support services	8,086,549	6,955,518	( 7,773,563)	( 6,738,983)
Non-instructional	1,472,841	1,404,430	19,304	60,564
Sixteenth section	76,615	30,178	( 63,987)	( 16,806)
Interest on long-term liabilities	<u>329,916</u>	<u>362,716</u>	<u>( 329,916)</u>	<u>( 362,716)</u>
<b>Total Expenses</b>	<u>\$ 21,789,913</u>	<u>19,600,579</u>	<u>(15,974,443)</u>	<u>(14,536,153)</u>

- Net cost of governmental activities (\$15,974,443) was financed by general revenue, which is made up of primarily property taxes (\$3,562,466), state revenue (\$12,498,489) federal revenue (\$425,510), and sixteenth section sources (\$167,753).

- Investment earnings accounted for \$99,454 of funding.

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

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,388,778, an increase of \$619,519 due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$7,358,004 or 99% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$30,773 or 1% 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 \$404,049. The fund balance of Other Governmental Funds showed an increase of \$72,194. The increases in fund balance of the General Fund and Other Governmental Funds was due to increases during the year of ongoing revenues over normal expenditures. The fund balance of the Sixteenth Section Interest Fund increased \$155,638 during the fiscal year. This increase was due to the fact that only limited expenses were necessary during the year. The fund balance of the School Note Construction Fund showed a decrease of \$7,336. The fund balance of Education Technology state grants Fund showed a decrease of \$7,517. This decrease was due to an increase in expenses for the fiscal year.

## **BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budget amounts for federal expenditures for Title I was decreased due an anticipated decrease in revenue to be received for the year.
- Budget amounts for sixteenth section revenues were increased due to a higher than anticipated amount of salvage timber being cut.

- Budget amounts for federal revenue for Title II, Part A and Education Technology were increase as expectation for the request of more revenues were anticipated.

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2005, the District's total capital assets were \$20,687,136 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$128,987 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$8,183,382 and total depreciation expense for the year was \$494,953 resulting in total net assets of \$12,503,754.

Additional information of the District's capital assets can be found in Note 4 of this report.

**Debt Administration.** At June 30, 2005, the District had \$6,940,000 in general obligation bonds and other long-term debt outstanding, of which \$485,000 is due within one year. The district retired \$465,000 of long-term debt during the year ended June 30, 2005.

The District maintains an AA- bond rating.

Additional information of the District's long-term debt can be found in Note 5 of this report.

## **CURRENT ISSUES**

The Leake County 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 millage decreased 1 mill over the year ending June 30, 2004. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District has experienced steady growth over the past five years. Latest enrollment figures indicate that student enrollment in the District will remain relatively steady next year. The budget for the next fiscal year has taken this into account in both funding and staffing needs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Leake County School District, P. O. Drawer 478, Carthage, MS 39051.

**LEAKE COUNTY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**6/30/2005**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 2 )	\$ 5,950,077
Due from other governments	940,631
Lease receivable, net	12,691
Other receivables, net	4,401
Inventories and prepaid items	30,773
Restricted assets	463,692
Capital assets, net (Note 4 )	<u>12,503,754</u>
 Total Assets	 \$ <u><u>19,906,019</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 9,292
Deferred revenue	4,195
Interest payable on long-term liabilities	132,623
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	485,000
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	6,455,000
Non-capital related liabilities	<u>135,640</u>
 Total Liabilities	 \$ <u><u>7,221,750</u></u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 6,719,778
Restricted net assets:	
Expendable:	
School - based activities	1,668,138
Debt service	602,683
Forestry improvements	154,203
Unemployment benefits	72,164
Non-expendable:	
Sixteenth section	222,065
Unrestricted	<u>3,245,238</u>
 Total Net Assets	 \$ <u><u>12,684,269</u></u>

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Governmental</u> <u>Activities</u>
Primary Government:					
Governmental Activities:					
Instruction	\$ 11,823,992	345,061	3,652,650		(7,826,281)
Support services	8,086,549		312,986		(7,773,563)
Non-instructional	1,472,841	268,539	1,223,606		19,304
Sixteenth section	76,615	12,628			(63,987)
Interest and other expenses on long-term liabilities	329,916			-	(329,916)
Total governmental activities	<u>\$ 21,789,913</u>	<u>626,228</u>	<u>5,189,242</u>	<u>-</u>	<u>(15,974,443)</u>

General Revenues:	
Taxes:	
General purpose levies	\$ 3,267,685
Debt purpose levies	294,781
Unrestricted grants and contributions:	
State	12,498,489
Federal	425,510
Unrestricted investment earnings	99,454
Sixteenth section sources	167,753
<b>Total General Revenues</b>	<u>16,753,672</u>
 Change in Net Assets	 <u>779,229</u>
Net Assets - Beginning	11,906,246
Prior period adjustments	(1,206)
Net Assets - Restated	<u>11,905,040</u>
 Net Assets - Ending	 <u>\$ 12,684,269</u>

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

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

	Major Funds							Total Governmental Funds
	General Fund	Title I -Part A Basic FY 2005 Fund	Improving Teacher Quality Fund	Education Technology Fund	Sixteenth Section Interest Fund	School Note Construction Fund	Other Governmental Funds	
<b>ASSETS</b>								
Cash and cash equivalents (Note 2)	\$ 2,708,544	1		2,149	1,280,397	1,156,024	1,030,181	6,177,296
Cash with fiscal agents (Note 2)							236,473	236,473
Due from other governments	323,709	76,610	54,642	146,688			338,982	940,631
Lease receivable, net	4,401				12,691			12,691
Other receivable, net	345,192							4,401
Due from other funds (Note 3)								345,192
Inventories and prepaid items							30,773	30,773
Total Assets	\$ 3,381,846	76,611	54,642	148,837	1,293,088	1,156,024	1,636,409	7,747,457
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable and accrued liabilities	\$ 968				5,000		3,324	9,292
Due to other funds (Note 3)		76,610	54,642	148,837			65,103	345,192
Deferred revenue							4,195	4,195
Total Liabilities	968	76,610	54,642	148,837	5,000		72,622	358,679
Fund Balances:								
Reserved for:								
Inventory								
Unreserved:								
Undesignated, reported in:								
General fund	3,380,878							3,380,878
Special Revenue funds		1			1,288,088		575,643	1,863,732
Capital Projects funds						1,156,024		1,156,024
Debt Service funds							735,306	735,306
Permanent funds							222,065	222,065
Total Fund Balances	3,380,878	1			1,288,088	1,156,024	1,563,787	7,388,778
Total Liabilities and Fund Balances	\$ 3,381,846	76,611	54,642	148,837	1,293,088	1,156,024	1,636,409	7,747,457

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2005**

	<u>Amount</u>
<b>Total Fund Balance - Governmental Funds</b>	\$ 7,388,778
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 \$8,183,382	12,503,754
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 5 )	(7,075,640)
3. Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds	<u>(132,623)</u>
<b>Total Net Assets - Governmental Activities</b>	<u>\$ 12,684,269</u>

**LEAKE COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	Major Funds										Total Governmental Funds	
	General Fund	Title I - Part A Basic FY 2005 Fund	Improving Teacher Quality Fund	Education Technology Fund	Sixteenth Section Interest Fund	School/Note Construction Fund	Other Governmental Funds			Total Governmental Funds		
<b>Revenues:</b>												
Local sources	\$ 3,705,131											4,307,445
State sources	12,097,754											13,218,430
Federal sources	425,760	1,379,457	453,515	181,978	159,029							4,894,810
Sixteenth section sources												180,151
Total Revenues	16,228,645	1,379,457	453,515	181,978	159,029					4,183,133		22,600,836
<b>Expenditures:</b>												
Instruction	9,245,615	688,927	228,976	141,679						1,392,752		11,697,949
Support services	5,769,069	633,283	132,387	47,816						1,277,847		7,882,817
Noninstructional services	56,960	44,247								1,366,758		1,467,965
Sixteenth section					3,391							76,615
Facilities acquisition and construction										38,846		38,846
Debt service:												
Principal										465,000		465,000
Interest										332,055		332,055
Other										4,540		4,540
Total Expenditures	15,071,644	1,366,457	361,363	189,495	3,391					4,951,022		21,965,787
Excess (Deficiency) of Revenues Over Expenditures	1,157,001	13,000	92,152	(7,517)	155,638	(7,336)				(767,889)		635,049
<b>Other Financing Sources (Uses):</b>												
Sale of transportation equipment	865											865
Sale of other property	1,339											1,339
Operating transfers in	2,128,680									923,696		3,052,376
Other financing sources	40											40
Operating transfers out	(2,877,509)	(13,000)	(92,152)							(69,715)		(3,052,376)
Other financing uses	(6,367)	(13,000)	(92,152)							(13,898)		(20,265)
Total Other Financing Sources (Uses)	(752,952)	(13,000)	(92,152)							840,083		(18,021)
Net Change in Fund Balances	404,049	0	0	(7,517)	155,638	(7,336)				72,194		617,028
<b>Fund Balances:</b>												
July 1, 2004, as previously reported	2,976,829	1	0	7,517	1,132,450	1,163,360				1,489,104		6,769,261
Prior period adjustment										(1,206)		(1,206)
July 1, 2004, as restated	2,976,829	1	0	7,517	1,132,450	1,163,360				1,487,898		6,768,055
Increase (decrease) in reserved for inventory										3,695		3,695
June 30, 2005	\$ 3,380,878	1	0	0	1,288,088	1,156,024				1,563,787		7,388,778

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

**LEAKE COUNTY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2005**

	<b>Amount</b>
<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 617,028</b>
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 purchase amounted to \$222,741 and the depreciation expense amounted to \$494,953. (Note 4)	(272,212)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	465,000
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on sales of capital assets	(11,469)
Proceeds from sales of capital assets	(2,204)
4. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Decrease in accrued compensated absences	(27,288)
Accrued interest on bonds increase	6,679
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds and as increase in noninstructional expenditures in the statement of activities	3,695
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>779,229</u></b>

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

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ 831,156
Other receivable	<u>121</u>
Total Assets	<u>\$ 831,277</u>
<b>Liabilities</b>	
Accrued payroll	\$ 553,635
Salary benefits and withholdings payable	164,683
Due to student clubs	108,558
Other payables	<u>4,401</u>
Total Liabilities	<u>\$ 831,277</u>
<b>Net Assets</b>	
Total Net Assets	<u>\$ -</u>

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

LEAKE COUNTY SCHOOL DISTRICT

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

(1) **Summary of Significant Accounting Policies.**

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

*Government-wide Financial Statements:*

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

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

**LEAKE COUNTY SCHOOL DISTRICT**

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

*Fund Financial Statements:*

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

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. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

Title I, Part A Basic FY 2005 Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title I, Part A revenues received by the District.

Improving Teacher Quality Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title II, Part A revenues received by the District.

LEAKE COUNTY SCHOOL DISTRICT

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

Education Technology Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Education Technology revenues received by the District.

Sixteenth Section Interest Fund – This fund accounts for the expendable funds derived from sixteenth section or lieu lands.

School Note Construction Fund – This fund is used to account for the purchase, construction and/or major renovation of the school district's facilities.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of **Exhibit C**.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

LEAKE COUNTY SCHOOL DISTRICT

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

**LEAKE COUNTY SCHOOL DISTRICT**

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

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

I. Capital Assets.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. 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 Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

LEAKE COUNTY SCHOOL DISTRICT

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

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

**LEAKE COUNTY SCHOOL DISTRICT**

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

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

**LEAKE COUNTY SCHOOL DISTRICT**

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

**(2) Cash and Cash Equivalents and Cash with Fiscal Agents.**

**Cash and Cash Equivalents.**

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,177,296, and \$831,156, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$5,950,077 and restricted assets \$463,692. The restricted assets represents the cash balance of sixteenth section principal funds (permanent funds) in the amount of \$222,065 and MAEP funds (other governmental funds) in the amount of \$236,473 which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,207,351.

**Cash with Fiscal Agents.**

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$236,473.

**Custodial Credit Risk – Deposits**

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

**LEAKE COUNTY SCHOOL DISTRICT**

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

**(3) Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

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

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 345,192	
Other major funds		
Title I, Fund		76,610
Education Technology state grants		148,837
Improving Teacher Quality state grants		54,642
Other governmental funds		65,103
Total Funds	\$ 345,192	345,192

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

**B. Transfers In/Out:**

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 2,128,680	2,877,509
Other major fund(s)		
Title I Fund		13,000
Improving Teacher Quality state grants		92,152
Other governmental funds	923,696	69,715
Total Funds	\$ 3,052,376	3,052,376

The purpose of the interfund transfers is to transfer federal program indirect cost and expendable sixteenth section funds to the General Fund and to close-out federal program funds at year end. These transfers are consistent with the activities of the fund making the transfer.

**LEAKE COUNTY SCHOOL DISTRICT**

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

**(4) Capital Assets.**

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

	<u>Balance</u> <u>7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6-30-2005</u>
<u>Non-depreciable Capital Assets:</u>				
Land	\$ 463,095			463,095
Construction in progress	-	38,846	-	<u>38,846</u>
Total Non-depreciable Capital Assets	<u>463,095</u>	<u>38,846</u>	<u>-</u>	<u>501,941</u>
<u>Depreciable Capital Assets:</u>				
Buildings	16,590,575			16,590,575
Improvements other than buildings	90,912			90,912
Mobile equipment	2,721,694	62,979	( 81,726)	2,702,947
Furniture and equipment	<u>685,345</u>	<u>120,916</u>	<u>( 5,500)</u>	<u>800,761</u>
Total Depreciable Capital Assets	<u>20,088,526</u>	<u>183,895</u>	<u>( 87,226)</u>	<u>20,185,195</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	5,343,669	268,206		5,611,875
Improvements other than buildings	23,141	3,636		26,777
Mobile equipment	1,844,937	142,205	( 73,553)	1,913,589
Furniture and equipment	<u>550,235</u>	<u>80,906</u>	<u>-</u>	<u>631,141</u>
Total Accumulated Depreciation	<u>7,761,982</u>	<u>494,953</u>	<u>( 73,553)</u>	<u>8,183,382</u>
Total Depreciable Capital Assets, Net	<u>12,326,544</u>	<u>(311,058)</u>	<u>( 13,673)</u>	<u>12,001,813</u>
Governmental Activities Capital Assets, Net	\$ <u>12,789,639</u>	<u>(272,212)</u>	<u>( 13,673)</u>	<u>12,503,754</u>

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 159,159
Support services	327,527
Non-instructional	<u>8,267</u>
Total Depreciation Expense	\$ <u>494,953</u>

**LEAKE COUNTY SCHOOL DISTRICT**

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

**(5) Long-term liabilities.**

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

	<u>Balance</u> 7-1-2004	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 6-30-2005	<u>Amounts</u> <u>due</u> <u>within one</u> <u>Year</u>
A. General obligation bonds payable	\$ 855,000		65,000	790,000	65,000
B. Limited obligation bonds payable	4,860,000		220,000	4,640,000	230,000
C. Other loans payable	1,690,000		180,000	1,510,000	190,000
D. Compensated absences payable	<u>108,352</u>	<u>27,288</u>		<u>135,640</u>	
Total	<u>\$ 7,513,352</u>	<u>27,288</u>	<u>465,000</u>	<u>7,075,640</u>	<u>485,000</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
General obligation Refunding bonds	Varies	9-1-01	1-15-15	\$ <u>1,060,000</u>	<u>790,000</u>
Total				\$ <u>1,060,000</u>	<u>790,000</u>

**LEAKE COUNTY SCHOOL DISTRICT**

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

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

	Year Ending June 30	Principal	Interest	Total
2006	\$ 65,000	33,510	98,510	
2007	70,000	31,073	101,073	
2008	70,000	28,360	98,360	
2009	75,000	25,560	100,560	
2010	75,000	22,485	97,485	
2011-2015	435,000	60,105	495,105	
<b>Total</b>	<b>\$ 790,000</b>	<b>201,093</b>	<b>991,093</b>	

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 6% of property assessments as of October 1, 2004. This debt will be retired from the Education Enhancement Funds - Buildings and Buses fund.

**B. Limited obligation bonds payable.**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement	Varies	2-1-98	2-1-18	\$ 5,600,000	4,640,000
<b>Total</b>				<b>\$ 5,600,000</b>	<b>4,640,000</b>

**LEAKE COUNTY SCHOOL DISTRICT**

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

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 230,000	218,475	448,475
2007	245,000	207,788	452,788
2008	255,000	207,788	462,788
2009	270,000	184,725	454,725
2010	285,000	172,095	457,095
2011-2015	2,050,000	710,805	2,760,805
2016-2018	1,305,000	89,000	1,394,000
<b>Total</b>	<b>\$ 4,640,000</b>	<b>1,790,676</b>	<b>6,430,676</b>

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

C. Other loans payable.

The school district has issued debt instruments granted under the authority of Sections 37-59-101, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
\$1,850,000 limited tax notes	Varies	5-19-97	1-15-08	\$ 1,850,000	475,000
\$1,500,000 limited tax notes	Varies	3-19-02	3-1-14	1,500,000	1,035,000
<b>Total</b>				<b>\$ 3,350,000</b>	<b>1,510,000</b>

LEAKE COUNTY SCHOOL DISTRICT

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

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 190,000	64,660	254,660
2007	195,000	56,886	251,886
2008	195,000	48,756	243,756
2009	165,000	40,542	205,542
2010	175,000	33,777	208,777
2011-2015	590,000	63,093	653,093
Total	\$ 1,510,000	307,714	1,817,714

This debt will be retired from the 1998 Note Fund and the 2002 Note Fund.

D. Compensated absences payable.

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

(6) **Defined Benefit Pension Plan.**

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,177,578, \$1,082,888, and \$1,017,766, respectively, which equaled the required contributions for each year.

LEAKE COUNTY SCHOOL DISTRICT

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

(7) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Water cooler
2. Neopost digital mailing system

Lease expenditures for the year ended June 30, 2005, amounted to \$1,380. Future lease payments for this lease are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 785
2007	785
2008	785
2009	785
2010	<u>196</u>
Total	\$ <u>3,336</u>

(8) Sixteenth Section Lands.

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

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 58,120
2007	57,965
2008	54,204
2009	51,964
2010	34,870

LEAKE COUNTY SCHOOL DISTRICT

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

Year Ending June 30	Amount
2011 – 2015	\$ 156,175
2016 – 2020	156,145
2021 – 2025	156,145
2026 – 2030	126,662
Thereafter	143,532
Total	\$ <u>995,782</u>

(9) **Risk Management.**

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**LEAKE COUNTY SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTAL INFORMATION**

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

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative) Original to Final Final to Actual</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
<b>Revenues:</b>					
Local sources	\$ 4,009,566	3,812,301	3,705,131	(197,265)	(107,170)
State sources	11,434,840	12,047,328	12,097,754	612,488	50,426
Federal sources	279,944	306,123	425,760	26,179	119,637
Total Revenues	<u>15,724,350</u>	<u>16,165,752</u>	<u>16,228,645</u>	<u>441,402</u>	<u>62,893</u>
<b>Expenditures:</b>					
Instruction	9,615,364	9,413,780	9,245,615	201,584	168,165
Support services	5,833,081	5,714,224	5,769,069	118,857	(54,845)
Noninstructional services	81,215	55,971	56,960	25,244	(989)
Total Expenditures	<u>15,529,660</u>	<u>15,183,975</u>	<u>15,071,644</u>	<u>345,685</u>	<u>112,331</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>194,690</u>	<u>981,777</u>	<u>1,157,001</u>	<u>787,087</u>	<u>175,224</u>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	5,500	1,000		(4,500)	(1,000)
Sale of transportation equipment	2,550	865	865	(1,685)	0
Sale of other property	1,105	1,639	1,339	534	(300)
Operating transfers in	1,754,652	2,281,963	2,128,680	527,311	(153,283)
Other financing sources		40	40	40	0
Operating transfers out	(2,362,611)	(2,860,655)	(2,877,509)	(498,044)	(16,854)
Other financing uses	(5,500)	(4,000)	(6,367)	1,500	(2,367)
Total Other Financing Sources (Uses)	<u>(604,304)</u>	<u>(579,148)</u>	<u>(752,952)</u>	<u>25,156</u>	<u>(173,804)</u>
Net Change in Fund Balances	<u>(409,614)</u>	<u>402,629</u>	<u>404,049</u>	<u>812,243</u>	<u>1,420</u>
<b>Fund Balances:</b>					
July 1, 2004	<u>2,976,829</u>	<u>2,976,829</u>	<u>2,976,829</u>	<u>0</u>	<u>0</u>
June 30, 2005	<u>\$ 2,567,215</u>	<u>3,379,458</u>	<u>3,380,878</u>	<u>812,243</u>	<u>1,420</u>

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Title I - Part A Basic FY 2005 Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
	Revenues:				
Federal sources	\$ 1,542,633	1,542,633	1,379,457	0	(163,176)
Total Revenues	<u>1,542,633</u>	<u>1,542,633</u>	<u>1,379,457</u>	<u>0</u>	<u>(163,176)</u>
Expenditures:					
Instruction	785,254	644,325	688,927	140,929	(44,602)
Support services	707,197	579,791	633,283	127,406	(53,492)
Noninstructional services	38,182	26,822	44,247	11,360	(17,425)
Total Expenditures	<u>1,530,633</u>	<u>1,250,938</u>	<u>1,366,457</u>	<u>279,695</u>	<u>(115,519)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>12,000</u>	<u>291,695</u>	<u>13,000</u>	<u>279,695</u>	<u>(278,695)</u>
Other Financing Sources (Uses):					
Operating transfers out	(12,000)	(12,000)	(13,000)	0	(1,000)
Total Other Financing Sources (Uses)	<u>(12,000)</u>	<u>(12,000)</u>	<u>(13,000)</u>	<u>0</u>	<u>(1,000)</u>
Net Change in Fund Balances	<u>-</u>	<u>279,695</u>	<u>-</u>	<u>279,695</u>	<u>(279,695)</u>
Fund Balances:					
July 1, 2004	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
June 30, 2005	<u>\$ 1</u>	<u>279,696</u>	<u>1</u>	<u>279,695</u>	<u>(279,695)</u>

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Improving Teacher Quality Fund FY 2005 Fund**  
**For the Year Ended June 30, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances</b>	
				<b>Positive</b>	
	<b>Original</b>	<b>Final</b>	<b>(GAAP Basis)</b>	<b>Original to Final</b>	<b>Final to Actual</b>
<b>Revenues:</b>					
Federal sources	\$ 447,366	454,000	453,515	6,634	(485)
Total Revenues	447,366	454,000	453,515	6,634	(485)
<b>Expenditures:</b>					
Instruction	277,520	229,055	228,976	48,465	79
Support services	165,846	135,193	132,387	30,653	2,806
Total Expenditures	443,366	364,248	361,363	79,118	2,885
Excess (Deficiency) of Revenues Over Expenditures	4,000	89,752	92,152	85,752	2,400
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(4,000)	(92,152)	(92,152)	(88,152)	0
Total Other Financing Sources (Uses)	(4,000)	(92,152)	(92,152)	(88,152)	0
Net Change in Fund Balances	-	(2,400)	-	(2,400)	(2,400)
<b>Fund Balances:</b>					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ -	(2,400)	-	(2,400)	(2,400)

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Education Technology Fund**  
**For the Year Ended June 30, 2005**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances Positive (Negative)</b>	
	<b>Original</b>	<b>Final</b>		<b>Original to Final</b>	<b>Final to Actual</b>
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
<b>Revenues:</b>					
Federal sources	\$ 31,015	182,000	181,978	150,985	(22)
Total Revenues	<u>31,015</u>	<u>182,000</u>	<u>181,978</u>	<u>150,985</u>	<u>(22)</u>
<b>Expenditures:</b>					
Instruction		142,760	141,679	(142,760)	1,081
Support services	31,015	56,302	47,816	(25,287)	8,486
Total Expenditures	<u>31,015</u>	<u>199,062</u>	<u>189,495</u>	<u>(168,047)</u>	<u>9,567</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>(17,062)</u>	<u>(7,517)</u>	<u>(17,062)</u>	<u>9,545</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out					
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>-</u>	<u>(17,062)</u>	<u>(7,517)</u>	<u>(17,062)</u>	<u>9,545</u>
<b>Fund Balances:</b>					
July 1, 2004	<u>7,517</u>	<u>7,517</u>	<u>7,517</u>	<u>-</u>	<u>-</u>
June 30, 2005	<u>\$ 7,517</u>	<u>(9,545)</u>	<u>-</u>	<u>(17,062)</u>	<u>9,545</u>

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

**LEAKE COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Sixteenth Section Interest Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
<b>Revenues:</b>					
Local sources	\$ 2,382	2,382			(2,382)
Sixteenth section sources	285,000	298,688	159,029	13,688	(139,659)
Total Revenues	<u>287,382</u>	<u>301,070</u>	<u>159,029</u>	<u>13,688</u>	<u>(142,041)</u>
<b>Expenditures:</b>					
Sixteenth section	5,000	5,000	3,391	0	1,609
Total Expenditures	<u>5,000</u>	<u>5,000</u>	<u>3,391</u>	<u>0</u>	<u>1,609</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>282,382</u>	<u>296,070</u>	<u>155,638</u>	<u>13,688</u>	<u>(140,432)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	4,200	4,200	0	0	(4,200)
Operating transfers out				0	0
Total Other Financing Sources (Uses)	<u>4,200</u>	<u>4,200</u>	<u>0</u>	<u>0</u>	<u>(4,200)</u>
Net Change in Fund Balances	<u>286,582</u>	<u>300,270</u>	<u>155,638</u>	<u>13,688</u>	<u>(144,632)</u>
<b>Fund Balances:</b>					
July 1, 2004	<u>1,132,450</u>	<u>1,132,450</u>	<u>1,132,450</u>	<u>0</u>	<u>0</u>
June 30, 2005	<u>\$ 1,419,032</u>	<u>1,432,720</u>	<u>1,288,088</u>	<u>13,688</u>	<u>(144,632)</u>

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

**LEAKE COUNTY SCHOOL DISTRICT**

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2005**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

**LEAKE COUNTY SCHOOL DISTRICT**

**SUPPLEMENTAL INFORMATION**

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

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Catalog Of Federal Domestic Assistance No.</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	\$ 94,674
Child Nutrition cluster:		
School breakfast program	10.553	299,690
National school lunch program	10.555	757,225
Total child nutrition cluster		1,056,915
Fruit and vegetable program	10.582	8,342
Total U.S. Department of Agriculture		1,159,931
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Board for Community and Junior Colleges:		
Gaining early awareness and readiness for undergraduate programs (Gear Up)	84.334	47,366
Total		47,366
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,391,457
Vocational Education - basic grants to states	84.048	62,199
Safe and drug-free schools and communities - state grants	84.186	26,401
Eisenhower professional development state grants	84.281	272,795
Innovative education program strategies	84.298	13,737
Improving teacher quality state grants	84.367	180,720
Comprehensive school reform	84.332	61,450
Rural education	84.358	142,789
English language acquisition grants	84.365	14,757
Fund for the improvement of education	84.215	740
Education technology state grants	84.318	189,494
Total		2,356,539
Special Education cluster:		
Special Education - grants to states	84.027	734,809
Special Education - preschool grants	84.173	24,729
Total		759,538
Total passed-through Mississippi Department of Education		3,116,077
Total U.S. Department of Education		3,163,443
<b><u>U.S Department of Health and Human Services</u></b>		
Passed-through Mississippi Department of Education:		
Medical Assistance Program	93.778	12,293
Total passed-through Mississippi Department of Education		12,293
Total U.S. Department of Health and Human Services		12,293
<b>Total for All Federal Awards</b>		<b>\$ 4,335,667</b>

**NOTES TO SCHEDULE**

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

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 16,142,102	10,418,499	2,011,417	3,712,186
Other	<u>5,823,685</u>	<u>1,279,450</u>	<u>740,879</u>	<u>3,803,356</u>
Total	<u>21,965,787</u>	<u>11,697,949</u>	<u>2,752,296</u>	<u>7,515,542</u>
Total number of students	3,138			
Cost per student	\$ <u>7,000</u>	<u>3,728</u>	<u>877</u>	<u>2,395</u>

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

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

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s) Support Services - School Administration (2400s); Support Services - Business (2500s).

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



**WATKINS, WARD AND STAFFORD**  
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 Certified Public Accountants

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S. Keith Winfield, CPA	Robin Y. McCormick, CPA/PFS
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David M. Howell, CPA	Susan M. Lummus, CPA
Michael W. McCully, CPA	Thomas J. Browder, CPA
Mort Stroud, CPA	Stephen D. Flake, CPA
Gary C. Hamilton, CPA	John N. Russell, CPA

**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***

November 4, 2005

Superintendent and School Board  
 Leake County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect

on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 4, 2005, which is included in this report.

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

Philadelphia, Mississippi

*Watkins, Ward and Stafford, PLLC*



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

November 4, 2005

Superintendent and School Board  
 Leake County School District

Compliance

We have audited the compliance of the Leake County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Finding 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 the school district's compliance based on our audit.

We conducted our audit 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, Leake County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Leake 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Philadelphia, Mississippi

*Watkins, Ward and Stafford, PLLC*



**WATKINS, WARD AND STAFFORD**  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
 STATE LAWS AND REGULATIONS**

November 4, 2005

Superintendent and School Board  
 Leake County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$69,485 of classroom supply funds carried over from previous years.

1. Finding

During inspection of the sixteenth section lease ledger, instances were noted where payments of leases were more than 60 days late with no mention of legally required termination procedures being implemented.

Recommendation

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), which requires "the superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section land; likewise, he shall keep a correct current docket upon the existing leases or any extensions thereof as to the amounts and time of payment of rentals provided for by such lease. It shall be the duty of the superintendent to collect investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease."

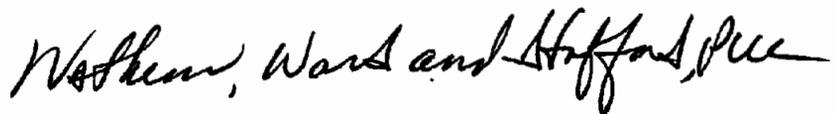
School District's Response

Beginning November 2005, the Leake County School District shall comply with Section 29-3-57, Miss. Code Ann. (1972), which addresses sixteenth section leases and termination of unpaid leases.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

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

Philadelphia, Mississippi



LEAKE COUNTY SCHOOL DISTRICT

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

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. | Reportable condition(s) identified that are not considered to be material weaknesses? | No          |

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. | Reportable condition(s) identified that are not considered to be material weaknesses?     | No          |
| 6. | Any audit finding(s) reported as required by Section <u>  </u> .510(a) of Circular A-133? | No          |
| 7. | Federal programs identified as major programs:  |             |
| a. | Rural education<br>CFDA # 84.358  |             |
| b. | Child nutrition cluster<br>CFDA #10.553<br>CFDA #10.555                                   |             |
| c. | Education technology state grants<br>CFDA #84.318   |             |
| d. | Improving teacher quality state grants<br>CFDA #84.367                                    |             |

**LEAKE COUNTY SCHOOL DISTRICT**

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

- |     |   |           |
|-----|---|-----------|
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000 |
| 9.  | Auditee qualified as a low-risk auditee?  | Yes       |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No        |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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

**LEAKE COUNTY SCHOOL DISTRICT**

**AUDITEE'S CORRECTIVE ACTION PLAN**

**LEAKE COUNTY SCHOOL DISTRICT**

Financial & Compliance Audit Division

As required by Section \_\_.315(c) of OMB Circular A-133, the Leake County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

There are no applicable audit findings, and therefore, no corrective action needed.