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Leland School District

Audited Financial Statements
June 30, 2005

J.E. Fortenberry, III, PC
Certified Public Accountant

FINANCIAL AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY AND SUPPLEMENTARY INFORMATION

Leland School District
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J.E. FORTENBERRY, III, PC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION

October 26, 2005
Superintendent and School Board
Leland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District as of and for the year ended June 30, 2005, which collectively comprise the Leland School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Leland School District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Leland 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*, I have also issued our report dated October 26, 2005, on my consideration of the Leland School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and 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 8 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 45 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the

information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leland 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 purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

J.E. Fortenberry, III, PC
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Leland 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.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased $784,019, which represents more than a 100% increase from fiscal year 2004.
- General revenues account for $7,055,821 in revenue, or 71% of all revenues. This amount was the same (percentage-wise) when compared to the general revenues reported for the year 2004, which consisted of $6,900,080 in general revenue. Program specific revenues in the form of charges for services and grants and contributions for this year accounted for $2,873,141 or 29% of total revenues compared with $2,877,090 in 2004.
- The District had $9,144,943 in expenses, amount that increased when compared with the $8,943,475 in expenses for the prior year; only $2,873,141 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $7,055,821 were adequate to provide for these programs.
- Among major funds, the General Fund had $6,751,542 in revenues and $5,829,894 in expenditures. In 2004 the General Fund had $6,623,079 in revenues and $5,876,867 in expenditures. The General Fund's fund balance increased $439,681 over the prior year.
- Capital assets, net of accumulated depreciation, increased by $861,089.
- Long-term debt decreased by $225,237.

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 on pages 17 and 18 of 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 on pages 22 and 26, respectively.

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 on pages 20 and 24 of this report.

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 on pages 29-44 of 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. This required supplementary information can be found on pages 45-50 of this report.

Additionally, a new schedule of instructional, administrative and other expenditures - Governmental Funds have been incorporated to this report right after the schedule of federal awards. The schedule of federal awards is required by OMB Cir. A-133 and can be found on page 52 of this report.

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 $2,204,292 as of June 30, 2005.

The District's investment in capital assets, net of related debt (12%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

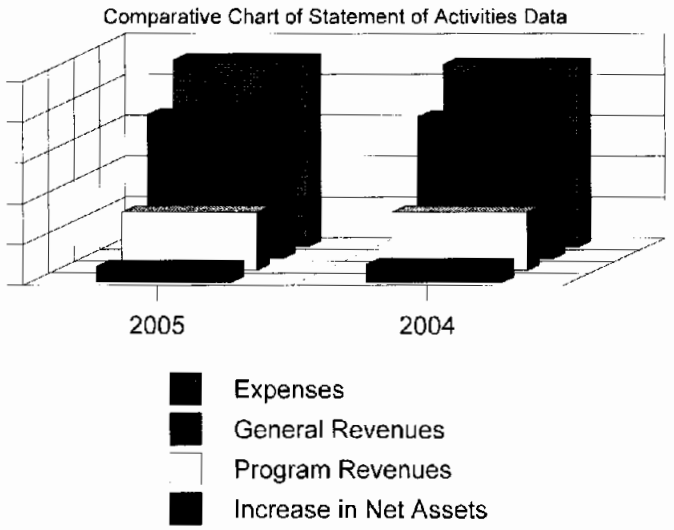
The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and 2004.

Assets	**2005**	**2004**
Current assets	$ 3,317,873	$ 2,980,832
Capital assets, net	2,508,468	1,647,379
Total assets	5,826,341	4,628,211
Liabilities		
Current liabilities	77,598	421,147
Long-term debt outstanding	3,544,451	3,769,688
Total liabilities	3,622,049	4,190,835
Net assets:		
Invested in capital assets, net of related debt	265,145	(783,955)
Restricted	1,992,083	1,703,884
Unrestricted	(52,936)	(482,553)
Total net assets	$ 2,204,292	$ 437,376

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were $9,928,962. The total cost of all programs and services was $9,144,943. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

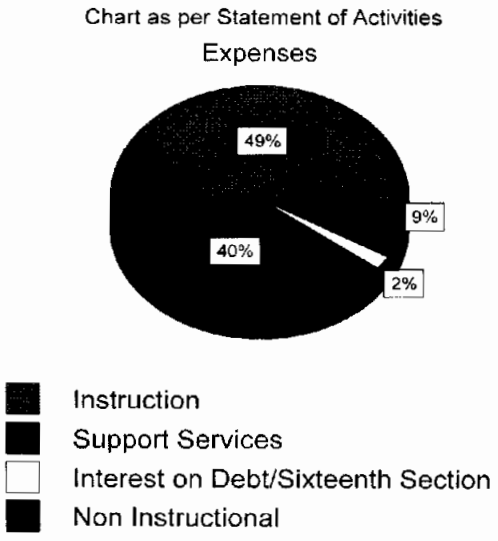
	2005	**2004**
Revenues:		
Program revenues	$ 2,873,141	$ 2,877,090
General revenues (& special items 2004)	7,055,821	6,944,403
Total revenues	9,928,962	9,821,493
Expenses:		
Instruction	4,511,402	4,458,417
Support services	3,674,266	3,602,236
Non-instructional	762,875	692,236
Sixteenth section	19,064	33,826
Interest on long-term liabilities	177,336	156,760
Total expenses	9,144,943	8,943,475
Increase (Decrease) in net assets	$ 784,019	$ 878,018

The following chart presents a comparison between the revenues received during this fiscal year (2005) and the revenues received during the previous year (2004), as well as the expenses and the corresponding increase or decrease in net assets.



Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each 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.

	Total Expenses	Net(Expense) Revenue
Instruction	$ 4,511,402	$ (4,298,037)
Support services	3,674,266	(1,873,365)
Non-instructional	762,875	96,000
Sixteenth section	19,064	(19,064)
Interest on long-term liabilities	177,336	(177,336)
Total expenses	$ 9,144,943	$ (6,271,802)



- Net cost of governmental activities ($6,271,802), was financed by general revenue, which is made up of primarily property taxes ($1,679,606) and state revenue ($4,973,004).

- Sixteenth section sources accounted for $238,814 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 $3,289,448, an increase of $673,667 due primarily to a reduction in expenditures for personnel. The District was not able to fill several teaching slots due to teacher shortages and had to use certified retirees to fill slots budgeted at full salaries. Also, several first year teachers were employed to replace retiring or leaving teachers who had many years of experience. The District continues to benefit from the support of E-Rate at the 90% reimbursement level for eligible expenditures. Professional development grants, such as America's Choice, have paid for expenditures otherwise paid for by the District. The Leland School District also received more MAEP Funds in 2005 than in 2004. Due to the efforts of the Superintendent and School Board to operate in the most frugal way feasible, the District Maintenance Fund has not had to use of its Sixteenth Section Rent money in the past three (3) years to maintain the normal operations of the school district. $3,269,852 or 99.4% 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 $19,596 or 0.60% 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 $439,681, a result of a reduction in expenditures for personnel. The District was not able to fill several teaching slots due to teacher shortages and had to use certified retirees to fill slots budgeted at full salaries. Also, several first year teachers were employed to replace retiring or leaving teachers who had many years of experience. The District continues to benefit from the support of E-Rate at the 90% reimbursement level for eligible expenditures. Professional development grants, such as America's Choice, have paid for expenditures otherwise paid for by the District. The Leland School District also received more MAEP Funds in 2005 than in 2004. Due to the efforts of the Superintendent and School Board to operate in the most frugal way feasible, the District Maintenance Fund has not had to use of its Sixteenth Section Rent money in the past three (3) years to maintain the normal operations of the school district. The increase in the Sixteenth Section Interest Fund was $219,281 due to collection of rents from 2005 leases and interest earned in the account, while the increase in the QZAB Debt Retirement Fund was $86,969 due to the annual required deposit and also the auditor's entry to adjust cash to the confirmation received. That entry was to be made at the end of the 2004 school year by the District. The fund balance of Other Governmental Funds showed

a decrease of $72,263 due primarily to a continued reduction in federal program allocations.

BUDGETARY HIGHLIGHTS

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

- The District revised the budget to reflect actual personnel employed since only an estimate could be made at the time the original budget was completed. Also, allowances were made for estimated increases in insurance costs and utility costs in the original budget. During the fiscal year Leland School District amended the general fund final budget to reflect cuts in expenditures it made during the year. These cuts consisted of goods and services including instruction, support services, and non-instructional services. The District amended Other Governmental Funds as a result of unanticipated allocation cuts and changes made after the original budget was completed.

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 $6,139,912, including land, school buildings, buses, other school vehicles, furniture and equipment. This amount represents an increase of $1,199,639 from the previous year. Total accumulated depreciation as of June 30, 2005 was $3,631,444 and total depreciation expense for the year was $187,962, resulting in total net capital assets of $2,508,468.

Additional information of the District's capital assets can be found in Note 4 on page 37 of this report.

Debt Administration. At June 30, 2005, the District had $3,544,451 in long-term debt outstanding, of which $237,006 is due within one year.

The District maintains an AA bond rating.

Additional information of the District's long-term debt can be found in Note 5 on page 37 of this report.

CURRENT ISSUES

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Leland School District, 408 E. Fourth Street, Leland, MS 38756 .

FINANCIAL STATEMENTS

LELAND SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets	
Cash and cash equivalents	$ 2,587,270
Cash with fiscal agents	451,482
Due from other governments	242,369
Inventories and prepaid items	19,596
Restricted assets	17,156
Capital assets, net	2,508,468
Total Assets	5,826,341
Liabilities	
Accounts payable and accrued liabilities	25,025
Deferred revenue	3,400
Interest payable on long-term liabilities	49,173
Long-term liabilities (due within one year):	
Capital related liabilities	196,244
Non-capital related liabilities	40,762
Long-term liabilities (due beyond one year)	
Capital related liabilities	2,047,079
Non-capital related liabilities	1,260,366
Total Liabilities	3,622,049
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	265,145
Restricted For:	
School Based Activities	1,087,814
Debt Service	735,022
Capital Improvements	116,350
Forestry Improvements	3,135
Unemployment Benefits	32,606
Sixteenth Section Nonexpendable	17,156
Unrestricted	(52,936)
Total Net Assets	$ 2,204,292

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary government					
Governmental Activities:					
Instruction	4,511,402	116,388	96,977	--	(4,298,037)
Support services	3,674,266	--	1,800,901	--	(1,873,365)
Noninstructional services	762,875	40	818,602	40,233	96,000
Sixteenth section	19,064	--	--	--	(19,064)
Interest on long-term liabilities	177,336	--	--	--	(177,336)
Total Primary Government	$ 9,144,943	$ 116,428	$ 2,716,480	$ 40,233	(6,271,802)
General Revenues:					
Taxes:					
General purpose levies					1,541,132
Debt purpose levies					138,474
Gaming					34,392
Unrestricted grants and contributions:					
State					4,973,004
Federal					66,860
Unrestricted investment earnings					45,118
Sixteenth section sources					238,814
Other					18,027
Total general revenues					7,055,821
Change in Net Assets					784,019
Net Assets - Beginning					437,376
Prior Period Adjustment					982,897
Net Assets - Restated					1,420,273
Net Assets - Ending					$ 2,204,292

The accompanying notes are an integral part of this statement.

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LELAND SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Title I Fund
ASSETS		
Cash and cash equivalents	$ 1,168,105	$ --
Cash with fiscal agents	--	--
Due from other governments	73,941	37,578
Due from other funds	59,148	--
Inventories and prepaid items	--	--
Total Assets	**$ 1,301,194**	**$ 37,578**
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	$ 22,674	$ --
Due to other funds	684	37,578
Deferred revenue	--	--
Total Liabilities	23,358	37,578
Fund balances:		
Reserved for:		
Inventory	--	--
Unreserved, undesignated, reported in:		
General fund	1,277,836	--
Special Revenue funds	--	--
Capital projects funds	--	--
Debt service funds	--	--
Permanent funds	--	--
Total Fund Balances	1,277,836	--
Total Liabilities and Fund Balances	**$ 1,301,194**	**$ 37,578**

The accompanying notes are an integral part of this statement.

Sixteenth Section Interest	QZAB Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
$ 921,462	$ 165,839	$ 349,020	$ 2,604,426
--	307,692	143,790	451,482
--	--	130,850	242,369
--	--	1,548	60,696
--	--	19,596	19,596
$ 921,462	$ 473,531	$ 644,804	$ 3,378,569
$ --	$ --	$ 2,351	$ 25,025
--	--	22,434	60,696
3,400	--	--	3,400
3,400	--	24,785	89,121
--	--	19,596	19,596
--	--	--	1,277,836
918,062	--	201,491	1,119,553
--	--	120,285	120,285
--	473,531	261,491	735,022
--	--	17,156	17,156
918,062	473,531	620,019	3,289,448
$ 921,462	$ 473,531	$ 644,804	$ 3,378,569

EXHIBIT C-1

LELAND SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds balance sheet	$	3,289,448
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		2,508,468
Payable for Long Term debt are not reported in the funds		(237,006)
Payables for bond principal which are not due in the current period are not reported in the funds.		(2,925,000)
Payables for capital leases which are not due in the current period are not reported in the funds.		(122,079)
Payables for bond interest which are not due in the current period are not reported in the funds.		(49,173)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(64,854)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.		(195,512)
Net assets of governmental activities - statement of net assets	$	2,204,292

The accompanying notes are an integral part of this statement.

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LELAND SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Title I Fund
Revenue:		
Local sources	$ 1,713,959	$ 105
State sources	4,812,378	65,200
Federal sources	225,205	727,853
Sixteenth section sources	--	--
Total revenues	6,751,542	793,158
Expenditures:		
Instruction	3,349,144	248,346
Support services	2,252,681	440,679
Noninstructional services	36,370	83,481
Sixteenth section	--	--
Facilities acquisition and construction	75,020	--
Debt service:		
Principal	116,679	--
Interest	--	--
Total expenditures	5,829,894	772,506
Excess (deficiency) of revenues (over) expenditures	921,648	20,652
Other financing sources (uses):		
Proceeds of loans	53,000	--
Insurance loss recoveries	7,000	--
Sale of other property	2,281	--
Operating transfers in	650,260	--
Operating transfers out	(1,117,585)	(20,652)
Other financing uses	(76,923)	--
Total other financing sources (uses)	(481,967)	(20,652)
Net change in fund balance	439,681	--
Fund Balances:		
July 1, 2004	837,029	--
Prior period adjustments	1,126	--
July 1, 2004 as restated	838,155	--
Increase (decrease) in reserve for inventory	--	--
June 30, 2005	$ 1,277,836	$ --

The accompanying notes are an integral part of this statement.

Sixteenth Section Interest	QZAB Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
$ --	$ 86,968	$ 135,375	$ 1,936,407
--	--	492,870	5,370,448
--	--	1,420,522	2,373,580
238,345	--	469	238,814
238,345	86,968	2,049,236	9,919,249
--	--	754,716	4,352,206
--	--	966,548	3,659,908
--	--	623,676	743,527
19,064	--	--	19,064
--	--	--	75,020
--	--	157,887	274,566
--	--	106,649	106,649
19,064	--	2,609,476	9,230,940
219,281	86,968	(560,240)	688,309
--	--	--	53,000
--	--	--	7,000
--	--	--	2,281
--	--	527,348	1,177,608
--	--	(39,371)	(1,177,608)
--	--	--	(76,923)
--	--	487,977	(14,642)
219,281	86,968	(72,263)	673,667
702,781	386,563	685,634	2,612,007
(4,000)	--	3,935	1,061
698,781	386,563	689,569	2,613,068
--	--	2,713	2,713
$ 918,062	$ 473,531	$ 620,019	$ 3,289,448

EXHIBIT D-1

LELAND SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	$	673,667
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		75,020
The depreciation of capital assets used in governmental activities is not reported in the funds.		(187,962)
The gain or loss on the sale of capital assets is not reported in the funds.		(5,524)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.		(2,281)
Increase in inventory is an adjustment to the fund balance in the funds but not in SOA		2,713
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		115,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		73,010
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		86,556
Proceeds of Long Term liabilities are reported in the funds but not in SOA		(53,000)
(Increase) decrease in accrued interest from beginning of period to end of period		3,149
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		3,671
Change in net assets of governmental activities - statement of activities	$	784,019

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency Fund
	Payroll Clearing Fund
ASSETS AND OTHER DEBITS	
Assets:	
Cash and other deposits	$ 352,481
Total Assets and Other Debits	**$ 352,481**
LIABILITIES, EQUITY AND OTHER CREDITS	
Liabilities:	
Accounts payable and accrued liabilities	$ 352,481
Total Liabilities	**$ 352,481**

The accompanying notes are an integral part of this statement.

Leland School District

Notes to the 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 consist 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.

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 Fund - This fund is used to account for financial resources of the district's Title I Program.

Sixteenth Section Interest Fund - The Sixteenth Section Interest Funds are funds used to account for maintaining and improving sixteenth section lands. Only the earnings, and not the principal, may be used.

QZAB Debt Retirement Fund - This fund is used to account for annual deposits required to be paid to the Qualified Zone Academy Bond Fund.

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.

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 consists 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.

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.

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 on 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 statue or budget requires to collect to the fund that statue or budget requires 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 3 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.

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 authorities of the county and the city 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.

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

The collateral for public entities' deposits in financial institutions is now 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 district's deposits with financial institutions reported in governmental funds and fiduciary funds was $2,604,426, and $352,481 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents $2,587,270 and Restricted Assets $17,156. The Restricted Assets represents the cash balance of the 16th Section Principal funds (Permanent Funds) which

is legally restricted and may not be used for purposes that supports the district's programs. The bank balance was $3,327,617.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. As of June 30, 2005, none of the district's bank balance of $3,327,617 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was $451,482.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General fund	$ 59,148	684
Other major fund(s)		
Title I Fund	0	37,578
Non-Major Funds	1,548	22,434
Agency Funds		0
Total Funds	$ 60,696	60,696

The purpose of the Due From/To other funds balances was to provide funds for operating purposes. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out.

	Transfer In	Transfer Out
Major funds:		
General fund	$ 650,260	1,117,585
Other major funds		
Title I Fund	0	20,652
Non-major Funds	527,348	39,371

	Transfer In	Transfer Out
Total Funds	$ 1,177,608	1,177,608

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

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

	Balance 7-1-2004	Addition	Retirement	Adjustments	Balance 6-30-2005
Non-depreciable capital assets:					
Land	$ 42,864	0	0	0	42,864
Total non-depreciable capital assets	42,864	0	0	0	42,864
Depreciable capital assets:					
Buildings	2,826,380	0	0		2,826,380
Building Improvements	0	0	0	1,859,454	1,859,454
Improvements other than buildings	656,710	0	0	(656,710)	0
Mobile equipment	476,194	24,339	72,042	0	428,491
Furniture and equipment	692,745	50,681	6,083	0	737,343
Leased property under capital leases	245,380	0	0	0	245,380
Total depreciable capital assets	4,897,409	75,020	78,125	1,202,744	6,097,048
Less accumulated depreciation for :					
Buildings	2,013,384	28,573	0	0	2,041,957
Building Improvements	0	62,647		498,340	560,987
Improvements other than buildings	277,432	0	0	(277,432)	0
Mobile equipment	413,168	17,031	64,298	0	365,901
Furniture and equipment	539,406	45,007	6,022	0	578,391
Leased property under capital leases	49,504	34,704	0	0	84,208
Total accumulated depreciation	3,292,894	187,962	70,320	220,908	3,631,444
Total depreciable capital assets, net	1,604,515	(112,942)	7,805	981,836	2,465,604
Governmental activities capital assets, net	$ 1,647,379	(112,942)	7,805	981,836	2,508,468

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 131,574
Support services	37,592
Non-Instructional	18,796
Total depreciation expense	$ 187,962

The adjustments represent restatements of the building improvements to accurately reflect its capital assets.

(5) Long-term liabilities

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

	Balance 7-1-2004	Additions	Reductions	Balance 6-30-2005	Amounts due in one year
A. Limited obligations bonds payable	2,160,000	0	115,000	2,045,000	120,000
B. Shortfall notes payable	0	53,000	53,000	0	0
C. Obligations under capital leases	271,333	0	73,010	198,323	76,244
D. QZA bonds payable	1,000,000	0	0	1,000,000	0
E. Other loans payable	262,624	0	33,556	229,068	33,556
F. Compensated absences payable	75,731	0	3,671	72,060	7,206
Total	3,769,688	53,000	278,237	3,544,451	237,006

A. Limited Obligations 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
1998 State Aid Capital Improvement	var.	01-01-98	01-01-18	$ 2,555,000	2,045,000
Total				$ 2,555,000	2,045,000

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

Year Ending June 30,	Principal	Interest	Total
2006	120,000	93,998	213,998
2007	125,000	88,838	213,838
2008	130,000	83,838	213,338
2009	135,000	77,618	212,618
2010	140,000	71,543	211,543
2011-2015	810,000	255,113	1,065,113
2015-2019	585,000	56,525	641,525
Total	$2,045,000	726,973	2,771,973

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 debt limit percentage. This debt will be retired from the Interim Capital Expenditures Fund.

B. Shortfall notes payable.

This debt was paid in full by fiscal year end.

C. Obligations under capital leases.

The school district has entered into 2 lease agreements that qualify as a capital lease for accounting purposes. Leased property under these leases is composed of:

1. Equipment

2. Lighting in classrooms.

The various options available to the lessee for these leases are as follows:

1. The school district may have the equipment replaced if the equipment is damaged, if the school district is not at fault.

2. The school district has the option to purchase the equipment at the end of the lease term (including Renewal Terms), upon payment in full Rental Payment and other amounts payable by Lessee.

3. The school district has the option to purchase the equipment at the end of the original term or any renewal term upon payment by Lessee of the then applicable purchase price.

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

Year Ending June 30,	Principal	Interest	Total
2006	76,244	6,867	83,111
2007	69,751	3,552	73,302
2008	52,328	1,358	53,686
Total	$198,323	11,777	210,100

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

This debt will be retired from the 4031 Fund (Other Debt Service).

D. Qualified Zone Academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2001	0%	06-26-01	06-25-14	$ 1,000,000	1,000,000
Total				$ 1,000,000	1,000,000

This debt will be retired from the District Maintenance Fund.

E. Other loans payable.

The school district has issued debt instruments granted under Section 37-59-101 of the Mississippi State Code.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1994 EPA Loan	N/A	05-31-94	05-31-08	$ 74,138	14,952
1995 EPA Loan	N/A	05-31-95	11-30-12	514,231	214,116
Total				$ 588,369	229,068

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

Year Ending June 30	Principal
2006	33,556
2007	33,556
2008	33,508
2009	28,556
2010	28,556
2011-2013	71,336

Total	$	229,068

This debt will be retired from the general fund.

F. 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 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 $494,402, $487,570, and $504,964 respectively, which equaled the required contributions for each year.

(7) 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 June 30		Amount
2006	$	215,216
2007		98,616
2008		96,866
2009		91,291
2010		4,741
2011-2015		23,704
2016-2020		23,704
Total	$	554,138

(8) 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 ninety school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workman's 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 Bancorp South Bank in Jackson, Mississippi. 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.

(9) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available

sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). Because none of the school districts which share townships with Leland School District nor the Leland School District itself has lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Leland School District shares with other school districts, Leland School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Leland School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the sixteenth section property, Leland School District may be entitled to a portion of the sixteenth section revenues the other school district(s) received. Because none of the school districts compiled and filed lists of children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables from other school districts can be determined.

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs form kindergarten through secondary school, in partnership with the business community. The school district, in agreement with First Union National Bank, has entered into such an arrangement dated June 26, 2001.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before June 25th each year starting in 2002 and ending in 2014. The amount accumulated in the sinking fund at the end of the period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30,	Amount
2006	$76,923
2007	76,923
2008	76,923
2009	76,923
2010	76,923
2011-2014	307,692
Total	$692,307

(11) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

	Explanation(s)		Amount
1.	During the fiscal year the district restated the building improvements to accurately reflect its capital assets.	$	981,836
2.	See explanation below.		1,061
		Total $	982,897

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Major funds:	Explanation(s)		Amount
General Fund	Voided Checks for prior yrs.	$	1,126
Sixteenth Section Interest Fund	Payment of a performance bond from 2004 booked as revenue in 2004		(4,000)
Other Governmental Funds	Voided Checks for prior yrs.		3,935
		Total $	1,061

REQUIRED SUPPLEMENTARY INFORMATION

LELAND SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2005

Exhibit 1

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 1,763,996	1,741,698	1,713,959	(22,298)	(27,739)
State sources	4,881,558	4,812,378	4,812,378	(69,180)	0
Federal sources	454,177	225,205	225,205	(228,972)	0
Total Revenues	7,099,731	6,779,281	6,751,542	(320,450)	(27,739)
Expenditures:					
Instruction	3,655,169	3,349,756	3,349,144	305,413	612
Support services	2,772,520	2,327,702	2,252,681	444,818	75,021
Noninstructional services	48,092	36,371	36,370	11,721	1
Facilities acquisition and construction	0	0	75,020	0	(75,020)
Debt Service				0	0
Principal	106,579	106,579	116,679	0	(10,100)
Interest	10,100	10,100	0	0	10,100
Total Expenditures	6,592,460	5,830,508	5,829,894	761,952	614
Excess (Deficiency) of Revenues Over Expenditures	507,271	948,773	921,648	(1,082,402)	(27,125)
Other Financing Sources (Uses):					
Other financing sources	45,000	62,281	62,281	17,281	0
Operating Transfers In	721,474	650,260	650,260	(71,214)	0
Operating Transfers Out	(1,274,648)	(1,117,586)	(1,117,585)	157,062	0
Other financing uses	0	(76,923)	(76,923)	(76,923)	0
Total Other Financing Sources (Uses)	(508,174)	(481,968)	(481,967)	26,206	0
Net Change in Fund Balances	(903)	466,805	439,681	(1,056,196)	(27,124)
Fund Balances:					
July 1, 2004	455,888	1,287,936	837,029	832,048	(450,907)
Prior period adjustments (Note)		(26,001)	1,126		
July 1, 2004, as restated	455,888	1,261,935	838,155	832,048	(450,907)
June 30, 2005	$ 454,985	1,728,740	1,277,836	(224,148)	(450,904)

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

LELAND SCHOOL DISTRICT

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2005

Exhibit 2

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 0	106	105	106	(1)
State sources	0	65,200	65,200	(65,200)	0
Federal sources	851,581	787,853	727,853	(63,728)	(60,000)
Total Revenues	851,581	853,159	793,158	(128,822)	(60,001)
Expenditures:					
Instruction	275,467	248,345	248,346	27,122	(1)
Support services	469,422	440,680	440,679	28,742	1
Non-Instructional	86,201	83,481	83,481	2,720	0
Total Expenditures	831,090	772,506	772,506	58,584	0
Excess (Deficiency) of Revenues Over Expenditures	20,491	80,653	20,652	(187,406)	(60,001)
Other Financing Sources (Uses):					
Operating transfers in	0	0	0	0	0
Operating transfers out	(19,941)	(20,652)	(20,652)	711	0
Total Other Financing Sources (Uses)	(19,941)	(20,652)	(20,652)	711	0
					0
Net Change in Fund Balances	550	60,001	0	0	(60,001)
Fund Balances:					
July 1, 2004	548	0	0	(548)	0
Prior period adjustments (Note)					
July 1, 2004, as restated	548	0	0	(548)	0
June 30, 2005	$ 1,098	60,001	0	(548)	(60,001)

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

LELAND SCHOOL DISTRICT

Budgetary Comparison Schedule

Sixteenth Section Interest Fund

For the Year Ended June 30, 2005

Exhibit 3

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Sixteenth Section	$ 225,970	238,345	238,345	12,375	0
Local Sources	0	9,037	0		
Total Revenues	225,970	238,345	238,345	12,375	0
Expenditures:					
Instruction	0	0	0	0	0
Sixteenth Section	22,175	19,064	19,064	3,111	0
Total Expenditures	22,175	19,064	19,064	3,111	0
Excess (Deficiency) of Revenues Over Expenditures	203,795	219,281	219,281	9,264	0
Other Financing Sources (Uses):					
Other financing sources	0	0	0	0	0
Other financing uses	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	203,795	219,281	219,281	9,264	0
Fund Balances:					
July 1, 2004	903,328	918,062	702,781	14,734	(215,281)
Prior period adjustments (Note)			(4,000)		
July 1, 2004, as restated	903,328	918,062	698,781	14,734	(215,281)
June 30, 2005	$ 1,107,123	1,137,343	918,062	23,998	(219,281)

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Leland School District

Notes to the 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.

SUPPLEMENTAL INFORMATION

Leland School District **Schedule 1**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	$49,915
Child Nutrition Cluster:		
School Breakfast Program	10.553	227,383
National School Lunch Program	10.555	385,043
Summer Food Service Program for Children	10.559	12,525
Total child nutrition cluster		624,951
Total passed-through the MDE		674,866
TOTAL U. S. DEPARTMENT OF AGRICULTURE		674,866
U. S. DEPARTMENT OF EDUCATION/		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	727,853
Migrant Education - Basic State Grant Program	84.011	90,445
Vocational Education - Basic Grant to States	84.048	45,619
Safe and Drug Free Schools and Communitites-National Programs	84.184L	158,345
Safe and Drug Free Schools and Communities - State Grants	84.186	25,789
Innovative Education Program Strategies	84.298	5,841
Rural Education Achievement Program	84.358	44,420
Improving Teacher Quality - State Grants	84.367	198,064
Special Education Cluster:		
Special Education - Grants to States	84.027	305,996
Special Education - Preschool Grants	84.173	13,484
Total special education cluster		319,480
Total passed-through the MDE		1,615,856
TOTAL U. S. DEPARTMENT OF EDUCATION		1,615,856
TOTAL FOR ALL FEDERAL AWARDS		$2,290,722

Notes to Schedule

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

Leland School District **Schedule 2**

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

Expenditures		Total	Instruction	Administrative	Other
Salaries and fringe benefits	$	6,956,754	4,063,826	843,071	2,049,857
Other		2,274,186	288,380	139,977	1,845,828
Total	$	9,230,940	4,352,206	983,048	3,895,685
Total number of students *		1,152			
Cost per student	$	8,013	3,778	853	3,382

Instruction - 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. (all the 1000 functional codes)

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

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

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

J.E. FORTENBERRY, III, PC
Certified Public Accountant

INDEPENDENT AUDITOR'S 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

October 26, 2005
Superintendent and School Board
Leland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District as of and for the year ended June 30, 2005, and have issued my report thereon dated October 26, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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 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. I did not note any matters involving internal control over financial reporting and its operation that I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance 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. However, this report is a matter of public record and its distribution is not limited.

J.E. Fortenberry, III, PC
Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

October 26, 2005
Superintendent and School Board
Leland School District

Compliance

I have audited the compliance of the Leland 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 the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

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

In my opinion, the Leland 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 Leland 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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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, regulation, 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. I did not note any matters involving internal control over compliance and its operation that I 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.

J.E. Fortenberry, III, PC
Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

October 26, 2005
Superintendent and School Board
Leland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District as of and for the year ended June 30, 2005, which collectively comprise Leland School District's basic financial statements and have issued my report thereon dated October 26, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

The results of 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 $35,862.12 of classroom supply funds carried over from previous years.

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

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

J.E. Fortenberry, III, PC
Certified Public Accountant

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FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

2. Material noncompliance relating to the financial statements? No.

3. Internal control over financial reporting:
   a. Material weaknesses identified? No.
   b. Reportable conditions identified that are not considered to be material weaknesses? No.

Federal Awards:

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

5. Internal control over major programs:
   a. Material weaknesses identified? No.
   b. Reportable conditions identified that are not considered to be material weaknesses? No.

6. Any audit findings reported as required by Section___.510(a) of OMB Circular A-133? No.

7. Federal programs tested as major programs:

   a. Child Nutrition Cluster:
      CFDA# 10.553
      CFDA# 10.555
      CFDA# 10.559

   b. Title I Grants to Local Educational Agencies.
      CFDA# 84.010

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

9. Auditee qualified as a low-risk auditee? Yes.

10. Prior fiscal year audit findings 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.

Section2: Findings Relating to the Financial Statements

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: Findings and Questioned Costs for Federal Awards

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