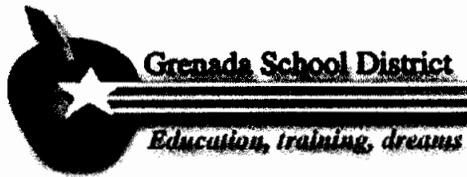




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Audited Financial Statements
June 30, 2006

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

FINANCIAL AUDIT REPORT

**Grenada School District
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INDEPENDENT AUDITOR'S REPORT
ON THE BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTAL INFORMATION

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

Superintendent and School Board
Grenada School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Grenada School District as of and for the year ended June 30, 2006, which collectively comprise the Grenada School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Grenada School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 that 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 Grenada School District, as of June 30, 2006, 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 my report dated September 19, 2006 on my consideration of the Grenada School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 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 my audit.

The Management's Discussion and Analysis on pages 8 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 43 through 48 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.

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601)992-5292

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Grenada School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds is presented for purposes of additional analysis. 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
September 19, 2006

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**GRENADA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Grenada School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. 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 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 \$ 511,648, which represents 2% increase from fiscal year 2005. The decrease is reflected primarily in a reduction in long-term debt. A three-mill note was retired in fiscal year 2006.
- General revenues account for \$ 25,331,647 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 6,939,898 or 22% of total revenues.
- The district had \$ 31,759,897 in expenses; only \$ 6,939,898 of these expenses was offset by program specific charges for services, grants, and contributions. General revenues of \$ 25,331,647 were adequate to provide for these programs.
- Among major funds, the District Maintenance Fund had \$ 25,479,813 in revenues and \$ 25,156,699 in expenditures. The District Maintenance Fund's fund balance increased \$ 409,027 over the prior year. The increase was due primarily to an increase in state revenues.
- Capital assets, net of accumulated depreciation, decreased by \$ 750,853. This decrease is due primarily to depreciation expense.
- Long-term debt decreased by \$ 819,308. This decrease is due to the fact that annual payments were made to decrease existing debt, as well as the fact that no new debt was issued during fiscal year 2006.

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.

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.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund 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.

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.

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 District Maintenance Fund and each additional major fund.

Additionally, a schedule of expenditures of federal awards is included in this report as required by OMB Cir.A-133.

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 \$ 27,722,178 as of June 30, 2006.

By far the largest portion of the District's net assets (62%) reflects its investment in capital assets (e.g., land building, building improvements, 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 June 30, 2006 and a comparison of the same information as presented at June 30, 2005.

	FISCAL YEAR 2006	FISCAL YEAR 2005	PERCENTAGE CHANGE
Current assets	\$ 10,916,211	10,444,466	4.5%
Capital assets, net	24,614,495	25,365,348	(3.0)%
Total Assets	35,530,706	35,809,814	(0.8)%
Current liabilities	904,228	1,050,676	(13.9)%
Long-term debt outstanding	6,904,300	7,548,608	(8.5)%
Total Liabilities	7,808,528	8,599,284	(9.2)%
Net assets:			
Invested in capital assets, net of related debt	17,254,495	17,205,348	0.3%
Restricted	8,104,703	8,070,537	0.4%
Unrestricted	2,362,980	1,934,645	22.1%
Total Net Assets	\$ 27,722,178	27,210,530	1.9%

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

- The increase in current assets is represented primarily by cash and investments. This is the result of an increased level of funding from State sources.
- The decrease in capital assets net is the result of the fiscal year 2006 depreciation expense.
- The decrease in long-term debt is a result of principal payments made during fiscal year 2006.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$ 32,271,545. The total cost of all programs and services was \$ 31,759,897. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006.

	FISCAL YEAR 2006	FISCAL YEAR 2005	PERCENTAGE CHANGE
Revenues:			
Program revenues			
Charges for service	\$ 1,015,014	1,057,814	(4.0)%
Operating grants and contributions	5,924,884	5,817,334	1.9%
Total Program Revenue	6,939,898	6,875,148	.94%
General Revenues			
Property taxes	6,211,131	5,866,075	5.9%
Unrestricted grants and contributions	18,557,488	17,246,401	7.6%
Unrestricted investment earnings	262,062	260,794	.49%
Sixteenth section sources	222,960	247,514	-9.9%
Other	78,006	38,525	102.5%
Total General Revenues	25,331,647	23,569,309	7.1%
Total revenues	<u>32,271,545</u>	<u>30,534,457</u>	<u>5.7%</u>
Expenses:			
Instruction	19,442,264	18,310,439	6.2%
Support services	10,180,369	9,794,189	3.9%
Non-instructional	1,761,448	1,692,136	4.1%
Sixteenth Section	16,870	62,529	(73.0)%
Interest on long-term liabilities	358,946	396,849	(9.6)%
Total expenses	<u>31,759,897</u>	<u>30,256,142</u>	<u>5.0%</u>
Increase in Net Assets	\$ 511,648	278,315	83.8%
Net Assets, July 1	27,210,530	26,932,215	1.0%
Net Assets, June 30	27,722,178	29,210,530	1.8%

The following are explanations of significant changes in revenues and expenses.

- The increase in total revenue is primarily a result of an increased level of state funding.
- The increase in total expenses is primarily a result of an increase in salaries, bus fuel, and utility cost.

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.

	Fiscal Year 2006 Total Expenses	Fiscal Year 2006 Net (Expense) Revenue	Fiscal Year 2005 Total Expenses	Fiscal Year 2005 Net (Expense) Revenue	Total Expense Difference	Net (Expense) Revenue Difference
Instruction	\$19,442,264	(15,635,176)	18,310,439	(14,681,429)	1,131,825	(953,747)
Support Services	10,180,369	(8,996,229)	9,794,189	(8,403,480)	386,180	(592,749)
Non-instructional	1,761,448	173,263	1,692,136	154,901	69,312	18,361
Sixteenth Section	16,870	(2,911)	62,529	(54,137)	(45,659)	51,226
Interest on long-term liabilities	358,946	(358,946)	396,849	(396,849)	(37,903)	37,903
Total Expenses	\$31,759,897	(24,819,999)	30,256,142	(23,380,994)	1,503,755	(1,439,006)

- Net cost of governmental activities (\$ 24,819,999), was financed by general revenue, which is made up of primarily property taxes (\$ 6,211,131) and state revenue (\$ 18,291,705). The increase in net cost of governmental activities from fiscal year 2005 to fiscal year 2006 is primarily a result of an increased cost in salaries, bus fuel and utilities.
- Investment earnings accounted for \$ 262,062 of funding.
- Sixteenth Section Revenues, including timber sales, leases and investment earnings accounted for \$222,960 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 \$ 10,742,551 an increase of \$ 424,340 due primarily to an increased level of state funding. \$ 6,338,904 or 59.01% 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 \$ 4,403,647 or 40.99% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The District Maintenance Fund is the principal operating fund of the District. The increase in fund balance in the District Maintenance Fund for the fiscal year was \$ 409,027 a result of an increase in state funding. The fund balance of Other Governmental Funds reflected a decrease.

BUDGETARY HIGHLIGHTS

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

Revisions to the budget were made to reflect changes in personnel during the year. In addition, when the original budget was completed several federal project allocations were estimated. As the actual allocations were made available, amendments were made to the budget.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the District Maintenance 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, 2006, the District's total capital assets were \$ 35,375,745 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$ 74,103 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$ 10,761,250 and total depreciation expense for the year was \$ 871,154, resulting in total net capital assets of \$ 24,614,495.

	Capital Assets, Net of Depreciation		Percentage Change
	2006	2005	
Land	\$ 148,900	148,900	0%
Buildings	23,412,401	24,012,443	(2.5)%
Improvements other than buildings	18,995	20,182	(5.9)%
Mobile Equipment	750,324	792,444	(5.3)%
Furniture and Equipment	283,875	391,379	(27.5)%
Total	\$ 24,614,495	25,365,348	(3.0)%

Additional information of the District's capital assets can be found in the Notes to the Financial Statements.

Debt Administration. At June 30, 2006, the District had \$ 3,410,000 in general obligation bonds and \$4,119,300 in other long-term debt outstanding, of which \$ 625,000 is due within one year.

	2006	2005	Percentage Change
General obligation bonds payable	\$3,410,000	3,785,000	(9.9)%
Limited obligation bonds payable	2,600,000	2,735,000	(4.9)%
Certificates of participation payable	1,350,000	1,425,000	(5.3)%
Three mill notes payable	0	215,000	(100)%
Compensated absences	169,300	188,608	(10.2)%
Total	\$7,529,300	8,348,608	(9.8)%

The District maintains an AA bond rating.

Additional information of the District's long-term debt can be found in the notes to the Financial Statements.

CURRENT ISSUES

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

The Grenada School District has committed itself to financial excellence for many years. This is evident by the fact that the "Certificate Recognizing Achievement in Financial Reporting" and the "Certificate Recognizing Achievement in Fixed Asset Management", issued by the Office of the State Auditor, has been awarded to the school district each year it has been available. The District's system of financial planning, budgeting, and internal financial controls are well regarded.

The Grenada School District is sensitive to the effects of increased taxation upon the citizens of Grenada County. This is evident by the fact that the advalorem taxation mileage rate for operational purposes has ranged from 35.13 mills in fiscal year 1994 to 36.32 mills in fiscal year 2006. This reflects an increase of only 1.19 mills in twelve years. An even closer observance will reveal that the total advalorem taxation millage rate, which includes debt service, has decreased by .57 mills during that same time.

The Grenada School District's enrollment at the end of the first month of the 2005-2006 school year was 4765 students. This enrollment reflects an increase of fifty-six (56) students over the first month of the 2004-2005 school year. The Grenada School District has taken into account this increase in both funding and staffing needs.

The Grenada School District plans to continue its sound 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 Grenada School District, P O Box 1940, 253 South Main, Grenada, Mississippi 38901.

FINANCIAL STATEMENTS

GRENADA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 7,381,369
Investments	2,241,942
Due from other governments	956,577
Inventories and prepaid items	44,380
Restricted assets	291,943
Capital assets, not being depreciated	
Land	148,900
Capital assets, net of accumulated depreciation	
Buildings	23,412,401
Improvements other than buildings	18,995
Mobile equipment	750,324
Furniture and equipment	<u>283,875</u>
Total Assets	\$ <u>35,530,706</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 151,809
Deferred revenue	21,851
Interest payable on long-term liabilities	105,568
Long-term liabilities, due within one year	
Capital related liabilities	625,000
Long-term liabilities, due beyond one year	
Capital related liabilities	6,735,000
Non-capital related liabilities	<u>169,300</u>
Total Liabilities	\$ <u>7,808,528</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 17,254,495
Restricted net assets:	
Expendable:	
School - based activities	3,559,061
Debt service	367,967
Capital improvements	3,669,151
Forestry improvements	81,398
Unemployment benefits	135,183
Non-expendable:	
Sixteenth section	291,943
Unrestricted	<u>2,362,980</u>
Total Net Assets	\$ <u>27,722,178</u>

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

GRENADA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets Primary Government
Primary Government:				
Governmental Activities:				
Instruction	\$ 19,442,264	581,838	3,225,250	(15,635,176)
Support services	10,180,369	-	1,184,140	(8,996,229)
Non-instructional	1,761,448	419,217	1,515,494	173,263
Sixteenth section	16,870	13,959	-	(2,911)
Interest on long-term liabilities	358,946	-	-	(358,946)
Total governmental activities	\$ 31,759,897	1,015,014	5,924,884	(24,819,999)
General Revenues:				
Taxes:				
				5,677,918
				533,213
Unrestricted grants and contributions:				
				18,291,705
				265,783
				262,062
				222,960
				78,006
				<u>25,331,647</u>
				<u>511,648</u>
				27,210,530
				<u>27,210,530</u>
				<u>\$ 27,722,178</u>

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

GRENADA SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2006

	Major Funds						Total Governmental Funds
	District Maint Fund	Displaced Student Fund	EHA Part B Fund	16th Section Interest Fund	GHS Building Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 1,840,574	-	-	2,576,672	1,689,377	1,352,880	7,459,503
Cash with fiscal agents	-	-	-	-	-	10,779	10,779
Investments	-	-	-	-	2,001,979	442,995	2,444,974
Due from other governments	376,998	208,505	126,270	-	-	244,804	956,577
Due from other funds	413,118	-	-	-	-	-	413,118
Inventories and prepaid items	-	-	-	-	-	44,380	44,380
Total Assets	\$ 2,630,690	208,505	126,270	2,576,672	3,691,356	2,095,838	11,329,331
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 98,409	-	-	15,024	22,204	16,171	151,808
Due to other funds	-	208,505	126,270	-	-	78,343	413,118
Deferred revenue	-	-	-	-	-	21,851	21,851
Total Liabilities	98,409	208,505	126,270	15,024	22,204	116,365	586,777
Fund Balances:							
Reserved for:							
Inventory	-	-	-	-	-	44,380	44,380
Capital projects funds	-	-	-	-	3,669,151	-	3,669,151
Debt service funds	-	-	-	-	-	473,535	473,535
Unemployment benefits funds	-	-	-	-	-	135,183	135,183
Forestry improvement funds	-	-	-	-	-	81,398	81,398
Unreserved:							
Undesignated, reported in:							
General fund	2,532,280	-	-	-	-	-	2,532,280
Special Revenue funds	-	-	-	2,561,648	-	800,295	3,361,943
Permanent funds	-	-	-	-	-	444,681	444,681
Total Fund Balances	2,532,280	-	-	2,561,648	3,669,151	1,979,472	10,742,551
Total Liabilities and Fund Balances	\$ 2,630,689	208,505	126,270	2,576,672	3,691,355	2,095,837	11,329,328

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

GRENADA SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 10,742,551
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 \$10,761,249.93.	24,614,495
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,634,868)</u>
Total Net Assets - Governmental Activities	<u>\$ 27,722,178</u>

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

GRENADA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds					Other Governmental Funds	Total Governmental Funds
	District Maint Fund	Displaced Student Fund	EHA Part B Fund	16th Section Interest Fund	GHS Building Fund		
Revenues:							
Local sources	\$ 6,336,355	-	-	-	112,547	1,016,135	7,465,037
State sources	18,734,082	-	-	-	-	539,157	19,273,239
Federal sources	409,376	297,505	847,641	-	-	3,654,611	5,209,133
Sixteenth section sources	-	-	-	277,922	-	30,881	308,803
Total Revenues	25,479,813	297,505	847,641	277,922	112,547	5,240,784	32,256,212
Expenditures:							
Instruction	16,250,963	297,505	596,309	-	-	1,678,935	18,823,712
Support services	8,903,295	-	234,874	-	317,435	652,447	10,108,051
Noninstructional services	2,441	-	-	-	-	1,728,278	1,730,719
Sixteenth section	-	-	-	5,326	-	11,543	16,869
Debt service:							
Principal	-	-	-	-	-	800,000	800,000
Interest	-	-	-	-	-	364,256	364,256
Other	-	-	-	-	-	3,598	3,598
Total Expenditures	25,156,699	297,505	831,183	5,326	317,435	5,239,057	31,847,205
Excess (Deficiency) of Revenues Over Expenditures							
	323,114	-	16,458	272,596	(204,888)	1,727	409,007
Other Financing Sources (Uses):							
Insurance loss recoveries	15,332	-	-	-	-	-	15,332
Sale of transportation equipment	1	-	-	-	-	-	1
Operating transfers in	311,507	-	-	6,619	-	255,863	573,989
Operating transfers out	(240,927)	-	(16,457)	-	-	(316,605)	(573,989)
Total Other Financing Sources (Uses)	85,913	-	(16,457)	6,619	-	(60,742)	15,333
Net Change in Fund Balances	409,027	-	1	279,215	(204,888)	(59,015)	424,340
Fund Balances:							
July 1, 2005	2,123,253	-	-	2,282,434	3,874,039	2,028,539	10,308,265
Increase (Decrease) in reserve for inventory	-	-	-	-	-	9,946	9,946
June 30, 2006	\$ 2,532,280	-	1	2,561,649	3,669,151	1,979,470	10,742,551

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

GRENADA 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, 2006

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 424,340
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 \$124,236.12 and the depreciation expense amounted to \$871,153.59.	(746,917)
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.	800,000
3. Expenses in Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: Compensated Absences	19,308
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognize interest as it accrues regardless of when it becomes due.	8,907
5. Proceeds from the sale of assets are reported in the governmental funds as revenues, but only the gain or loss on the sale of assets is reported in the Statement of Activities.	(1)
6. Gains and losses on sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities	(3,935)
7. Increases or decreases in reserve for inventory directly affects fund balance in the fund statements, but is adjusted through expenses in the Statement of Activities	<u>9,946</u>
Change in Net Assets of Governmental Activities	\$ <u><u>511,648</u></u>

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

GRENADA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>389,542</u>
Total Assets	\$ <u><u>389,542</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 319,914
Due to student clubs	<u>69,628</u>
Total Liabilities	\$ <u><u>389,542</u></u>

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

Grenada School District

Notes to the Financial Statements
June 30, 2006

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

(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.

The Grenada School District Leasing Authority ("The Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a six member board, which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district. See Note (11).

B. Basis of Presentation.

The school district's basic financial statements 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 non-exchange revenues.

The Statement of Net Assets presents the financial condition of the governmental

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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. 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 as are the Fiduciary Fund financial statements, regardless of when the relate cash flow takes place. 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 so 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.

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

The school district reports the following major governmental funds:

District Maintenance 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.

Displaced Student Fund - This fund is used to assist in meeting the educational needs of students displaced by Hurricane Katrina and Rita, and to help schools that were closed as a result of the hurricanes to reopen as quickly and effectively as possible.

EHA Part B Fund - This is the school district's federal reimbursable fund that provided a free and appropriate public education to special needs students.

GHS Building Fund - This fund is used to account for district funds received from local and sixteenth sources for building construction.

Sixteenth Section Interest Fund - This fund serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund is either shared with other school districts or transferred to the district's district maintenance fund per specific statutory board order.

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 Project 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.

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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 broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in the *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 a financial institution selected by the school board. State statutes specify how this depository is 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 is allowed, by statute, to invest excess fund, as permitted by Section 29-3-113 Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the type described in Sections 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 of greater than twelve 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).

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

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 assets accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following scale details those thresholds.

	Capitalization <u>Policy</u>	Estimated <u>Useful Life</u>
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 amounts will correspond with the amounts for the asset classifications, as listed. (See **Note (5)** for details).

J. Long-term liabilities.

Long-term liabilities are the un-matured principal of bonds, warrants, notes, or other forms of non-current 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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Interfund transactions and balances are the result of timing differences between the date 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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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 district maintenance 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.

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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.

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

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

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

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

M. Property Taxes.

Advalorem 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 advalorem 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 policy of the school district. Some employees are allowed personal and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so 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

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standard.

As required, the Grenada School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,459,503 and \$389,542 , respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$7,381,369 and restricted assets - \$291,943. The restricted assets represent the cash balance, and cash with fiscal agents and investment balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,057,693.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$9,057,693 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$ 10,779.

Investments

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

Investment Type	Maturities (in years)	Fair Value	Rating
Hancock Horizon Treasury CLA	Less than 1	\$ 239,963	AAA
Federal Home Loan Mortgage Corp – Callable Notes	Less than 1	203,032	Not Rated
Bancorp South Gov Obligation	Less than 1	2,001,979	Not Rated
Total Investments		\$ 2,444,974	

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover the value of its investments. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

Due From / To Other Funds	Due From	Due To
Governmental Funds:		
District Maintenance Fund	\$ 413,118	
IDEA, EHA Part B		126,270
Displaced Student Fund		208,505
Other Governmental Funds		78,343
Total Funds	\$ 413,118	413,118

Interfund loans exist primarily to avoid a deficit cash balance in federal funds. This deficit exists because the school district must expend funds for products/services prior to requesting federal dollars to pay for the products/services.

B. Transfers In/Out.

	Transfers In	Transfers Out
Governmental Funds:		
District Maintenance Fund	\$ 311,507	240,927
IDEA, EHA Part B		16,457

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Sixteenth Section Interest Fund	6,619	
Other Governmental Funds	255,863	316,605
Total Funds	\$ 573,989	573,989

Interfund Transfers were for indirect cost reimbursement, EEF debt service payment, and the escrowing of unemployment.

(5) Capital Assets.

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

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Non-Depreciable Capital Assets				
Land	\$ 148,900	0	0	148,900
Total Non-depreciable capital assets	148,900	0	0	148,900
Depreciable Capital Assets				
Buildings	31,191,921	0	0	31,191,921
Improvements other than buildings	29,678	0	0	29,678
Mobil Equipment	2,711,890	95,000	38,157	2,768,733
Furniture and Equipment	1,219,253	29,236	11,976	1,236,513
Total depreciable capital assets	35,152,742	124,236	50,133	35,226,845
Less Accumulated Depreciation for:				
Buildings	7,179,478	600,042	0	7,779,520
Improvements other than buildings	9,496	1,187	0	10,683
Mobile equipment	1,919,446	133,305	34,342	2,018,409
Furniture and Equipment	827,874	136,620	11,856	952,638
Total Accumulated Depreciation	9,936,294	871,154	46,198	10,761,250
Total Depreciable Capital Assets, net	25,216,448	(746,918)	(3,935)	24,465,595
Governmental activities capital assets, net	\$ 25,365,348	(746,918)	(3,935)	24,614,495

Depreciation expense was charged to the following governmental functions:

Instructional services	\$632,113
Support Services	168,556
Non-instructional	70,485
Total Depreciation Expense	\$871,154

The capital assets above include significant amounts of buildings and furniture and equipment,

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

(6) Long-term liabilities.

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

	Balance July 1, 2005	Reductions	Balance June 30, 2006	Amounts Due Within One Year
A. General obligation Bonds payable	\$3,785,000	375,000	3,410,000	405,000
B. Limited obligation Bonds payable	2,735,000	135,000	2,600,000	145,000
C. Certificates of participation payable	1,425,000	75,000	1,350,000	75,000
D. Three mill notes payable	215,000	215,000	0	0
E. Compensated absences payable	188,608	19,308	169,300	0
TOTAL	\$8,348,608	819,308	7,529,300	625,000

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds, Series 1998	Varies	9-15-1998	9-1-2012	\$ 4,575,000	3,410,000
Total				\$ 4,575,000	3,410,000

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 405,000	145,064	550,064
2008	425,000	126,905	551,905
2009	450,000	107,543	557,543
2010	485,000	86,618	571,618
2011	515,000	63,989	578,989
2012-2014	1,130,000	53,339	1,183,339
Total	\$ 3,410,000	583,458	3,993,458

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006, the amount of outstanding bonded indebtedness was equal to 1.81% of property assessments as of October 2005. This debt will be retired from the bond retirement 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 bonds	4.99%	3-5-1998	2-1-2018	\$ 3,545,000	2,600,000
Total				\$ 3,545,000	2,600,000

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 145,000	115,373	260,373
2008	150,000	108,665	258,665
2009	160,000	101,845	261,845
2010	170,000	94,500	264,500
2011	175,000	86,738	261,738
2012-2016	1,035,000	300,265	1,335,265
2017-2019	765,000	47,955	812,955
Total	\$ 2,600,000	855,341	3,455,341

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 bond retirement fund.

GRENADA SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

C. Certificates of participation payable.

As more fully explained in Note 10, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust Certificates, Series 1999	Varies	6-1-1999	6-1-2019	\$ 1,800,000	1,350,000
Total				\$ 1,800,000	1,350,000

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 75,000	64,444	139,444
2008	80,000	61,069	141,069
2009	85,000	57,469	142,469
2010	90,000	53,559	143,559
2011	95,000	49,418	144,418
2012 – 2016	535,000	177,165	712,165
2017-2019	390,000	39,500	429,500
Total	\$ 1,350,000	502,624	1,852,624

This debt will be retired from the capital lease retirement fund.

D. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes payable	Varies	7-1-1996	7-1-2006	\$ 1,795,000	0
Total				\$ 1,795,000	0

This debt was retired from the Three Mill Ten Year Note Fund during the year.

E. Compensated absences payable.

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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 employee's salaries were paid.

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% 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, 2006, 2005 and 2004 were \$1,965,140, \$1,777,074, and \$1,556,689 respectively, which equaled the required contributions for each year.

(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 there from 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
2007	\$ 109,067
2008	97,941
2009	65,855
2010	35,362
2011	20,158

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

2012-2016	50,467
2017-2021	24,340
2022-2026	8,500
2027-2031	8,500
2032-2036	8,500
2037-2041	8,500
2042-2044	5,100
Total	\$ 442,290

(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 119 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 Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, 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.

(10) Prior Year Defeasance of Debt.

In prior years, the Grenada School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2006, \$3,410,000 of bonds outstanding are defeased.

(11) Trust Certificates.

A trust agreement dated June 1, 1999, was executed by and between the school district and

GRENADA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Bancorp South, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,800,00. This amount was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972).

The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

GRENADA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 5,994,475	6,023,260	6,336,355	28,785	313,095
State sources	18,322,707	18,740,701	18,734,082	417,994	(6,619)
Federal sources	416,368	392,410	409,376	(23,958)	16,966
Total Revenues	<u>24,733,550</u>	<u>25,156,371</u>	<u>25,479,813</u>	<u>422,821</u>	<u>323,442</u>
Expenditures:					
Instruction	16,515,559	16,868,236	16,250,963	(352,677)	617,273
Support services	9,713,066	9,480,830	8,903,295	232,236	577,535
Non-instructional services	2,626	5,240	2,441	(2,614)	2,799
Total Expenditures	<u>26,231,251</u>	<u>26,354,306</u>	<u>25,156,699</u>	<u>(123,055)</u>	<u>1,197,607</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,497,701)</u>	<u>(1,197,935)</u>	<u>323,114</u>	<u>299,766</u>	<u>1,521,049</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	-	11,646	15,332	11,646	3,686
Sale of transportation equipment	-	3,496	1	3,496	(3,495)
Sale of property	-	3,440	-	3,440	(3,440)
Transfers In	1,246,526	712,836	311,507	(533,690)	(401,329)
Transfers out	(232,055)	(227,855)	(240,927)	4,200	(13,072)
Total Other Financing Sources (Uses)	<u>1,014,471</u>	<u>503,563</u>	<u>85,913</u>	<u>(510,908)</u>	<u>(417,650)</u>
Net Change in Fund Balances	<u>(483,230)</u>	<u>(694,372)</u>	<u>409,027</u>	<u>(211,142)</u>	<u>1,103,399</u>
Fund Balances:					
July 1, 2005	1,334,608	2,123,252	2,123,252	788,644	(0)
June 30, 2006	<u>\$ 851,378</u>	<u>1,428,880</u>	<u>2,532,279</u>	<u>577,502</u>	<u>1,103,399</u>

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

GRENADA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Displaced Student Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	217,576	297,505	217,576	79,929
Total Revenues	-	217,576	297,505	217,576	79,929
Expenditures:					
Instruction	-	215,796	297,505	(215,796)	(81,709)
Total Expenditures	-	215,796	297,505	(215,796)	(81,709)
Excess (Deficiency) of Revenues Over Expenditures	-	1,780	-	1,780	(1,780)
Other Financing Sources (Uses):					
Operating transfers out	-	(1,780)	-	(1,780)	1,780
Total Other Financing Sources (Uses)	-	(1,780)	-	(1,780)	1,780
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	-	-	-	-

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

GRENADA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 EHA Part B Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,018,478	1,006,523	847,641	(11,955)	(158,882)
Total Revenues	<u>1,018,478</u>	<u>1,006,523</u>	<u>847,641</u>	<u>(11,955)</u>	<u>(158,882)</u>
Expenditures:					
Instruction	719,630	715,134	596,309	4,496	118,825
Support services	279,450	272,079	234,874	7,371	37,205
Total Expenditures	<u>999,080</u>	<u>987,213</u>	<u>831,183</u>	<u>11,867</u>	<u>156,030</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>19,398</u>	<u>19,310</u>	<u>16,458</u>	<u>(88)</u>	<u>(2,852)</u>
Other Financing Sources (Uses):					
Operating Transfers out	(19,398)	(19,310)	(16,457)	88	2,853
Total Other Financing Sources (Uses)	<u>(19,398)</u>	<u>(19,310)</u>	<u>(16,457)</u>	<u>88</u>	<u>2,853</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	<u>\$ -</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>

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

GRENADA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 16th Section interest Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 407,741	410,686	277,922	2,945	(132,764)
Total Revenues	<u>407,741</u>	<u>410,686</u>	<u>277,922</u>	<u>2,945</u>	<u>(132,764)</u>
Expenditures:					
Sixteenth section	15,456	17,369	5,326	(1,913)	12,043
Total Expenditures	<u>15,456</u>	<u>17,369</u>	<u>5,326</u>	<u>(1,913)</u>	<u>12,043</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>392,285</u>	<u>393,317</u>	<u>272,596</u>	<u>1,032</u>	<u>(120,721)</u>
Other Financing Sources (Uses):					
Operating Transfers in	225,095	226,493	6,619	1,398	(219,874)
Operating Transfers out	(1,169,095)	(620,127)	-	548,968	620,127
Total Other Financing Sources (Uses)	<u>(944,000)</u>	<u>(393,634)</u>	<u>6,619</u>	<u>550,366</u>	<u>400,253</u>
Net Change in Fund Balances	<u>(551,715)</u>	<u>(317)</u>	<u>279,215</u>	<u>551,398</u>	<u>279,532</u>
Fund Balances:					
July 1, 2005	2,258,772	2,282,434	2,282,434	23,662	-
June 30, 2006	<u>\$ 1,707,057</u>	<u>2,282,117</u>	<u>2,561,649</u>	<u>575,060</u>	<u>279,532</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Grenada School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

Grenada School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$114,337
Child Nutrition Cluster:		
School Breakfast Program	10.553	305,635
National School Lunch Program	10.555	1,135,110
Total child nutrition cluster		<u>1,440,745</u>
Total passed-through the MDE		<u>1,555,082</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>1,555,082</u>
U.S. DEPARTMENT OF DEFENSE		
Direct Program:		
Reserve Officers' Training Corp	12.XXX	60,507
Pass-through Grenada County Board of Supervisors:		
Flood Control Project	12.106	4
TOTAL U.S. DEPARTMENT OF DEFENSE		<u>60,511</u>
FEDERAL COMMUNICATIONS COMMISSION		
Administered through Universal Service Administrative Company		
The schools and libraries program of the Universal Service Fund	32.XXX	39,446
Total Federal Communications Commission		<u>39,446</u>
U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Board for Community and Junior Colleges:		
Adult Education - State Grant Program	84.002	197,612
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - Vocational Rehabilitation grants to state	84.126	1,092
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,148,479
Migrant Education - State Grant Program	84.011	6,638
Vocational Education - Basic Grant to States	84.048	53,507
Safe and Drug Free Schools and Communities - State Grants	84.186	38,185
State Grants for Innovative Programs	84.298	14,569
Education Technology State Grants	84.318	10,338
Improving Teacher Quality - State Grant	84.367	325,083
Rural Education	84.358	135,131
Hurricane Education Recovery	84.938	217,576
Total		<u>2,148,210</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	905,159
Special Education - Preschool Grants	84.173	46,843
Total special education cluster		<u>952,002</u>
Total passed-through Mississippi Department of Education		<u>3,100,212</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>3,100,212</u>
TOTAL FOR ALL FEDERAL AWARDS		<u><u>\$4,755,251</u></u>

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and 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.

Grenada School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 24,715,147	19,465,971	921,641	1,374,839	2,952,696
Other	7,132,058	2,039,106	297,544	43,607	4,751,801
Total	\$ 31,847,205	21,505,077	1,219,185	1,418,446	7,704,497
Total number of students *	4,159				
Cost per student \$	7,657	5,171	293	341	1,852

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

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

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s)

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

include 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 REPORT-
ING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Superintendent and School Board
Grenada School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Grenada School District as of and for the year ended June 30, 2006, which collectively comprise Grenada School District's basic financial statements and have issued my report thereon dated September 19, 2006. 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 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. I 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, 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
September 19, 2006

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

Superintendent and School Board
Grenada School District

Compliance

I have audited the compliance of the Grenada 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, 2006. 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 Grenada 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, 2006.

Internal Control Over Compliance

The management of the Grenada 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 our 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 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 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
September 19, 2006

Certified Public Accountant

J.E. FORTENBERRY, III, PC

Certified Public Accountant

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

Superintendent and School Board
Grenada School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Grenada School District as of and for the year ended June 30, 2006, which collectively comprise Grenada School District's basic financial statements and have issued my report thereon dated September 19, 2006. 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 my procedures 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 \$4,951.73 classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements disclosed no instances of noncompliance with other state laws and regulations.

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



J.E. Fortenberry, III, PC
September 19, 2006

Certified Public Accountant

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601)992-5292

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Grenada School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

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 identified as major programs:
 - a. Child Nutrition Cluster:
CFDA# 10.553
CFDA# 10.555
 - b. Title I Grants to Local Educational Agencies.
CFDA# 84.010
 - c. Improving Teacher Quality
CFDA# 84.367
 - d. Special Education Cluster
CFDA# 84.027
CFDA# 84.173

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.

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.

