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LEAKE COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2006**

**LEAKE COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT**

LEAKE COUNTY SCHOOL DISTRICT

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

Superintendent and School Board
Leake County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District, as of June 30, 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*, we have also issued our report dated October 20, 2006, on our consideration of the Leake County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (4) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (36) through (41) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leake County School District's basic financial statements. The 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 the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
October 20, 2006

A handwritten signature in black ink that reads "Watkins, Ward and Stafford, PLLC". The signature is written in a cursive, flowing style.

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

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$674,711, consisting of change in net assets of \$674,711, which represents 5% increase from fiscal year ending June 30, 2005.
- General revenues account for \$18,250,204 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,126,711 or 25% of total revenues.
- The District had \$23,702,204 in expenses; only \$6,126,711 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,250,204 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,431,092 in revenues and \$17,052,172 in expenditures. The General Fund's fund balance increased \$152,242 over the prior year. The increase represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.
- Capital assets, net of accumulated depreciation, increased by \$35,684.

- Long-term debt decreased by \$485,000. The decrease was due to scheduled principal payments on outstanding debt. No additional long-term debt was incurred during the fiscal year ended June 30, 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.

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government’s financial position. In the case of the District, assets exceeded liabilities by \$13,358,980 as of June 30, 2006.

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

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

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

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Current assets	\$ 7,592,436	7,402,265
Capital assets, net	<u>12,539,438</u>	<u>12,503,754</u>
Total Assets	<u>20,131,874</u>	<u>19,906,019</u>
Current liabilities	184,329	146,110
Long-term debt outstanding	<u>6,588,565</u>	<u>7,075,640</u>
Total Liabilities	<u>6,772,894</u>	<u>7,221,750</u>
Net Assets:		
Invested in capital assets, net of related debt	6,084,438	6,719,778
Restricted	3,640,231	2,719,253
Unrestricted	<u>3,634,311</u>	<u>3,245,238</u>
Total Net Assets	<u>\$ 13,358,980</u>	<u>12,684,269</u>

The following is a significant current year transaction that had an impact on the Statement of Net Assets during the year ending June 30, 2006.

- Long-term debt principal of \$485,000 was retired.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$24,376,915. This represents an increase of \$1,807,773, or 8%, from the prior year. The total cost of all programs and services was \$23,702,204. This represents an increase of \$1,912,291, or 9%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 704,602	626,228
Operating grants and contributions	5,422,109	5,189,242
General revenues:		
Property taxes	3,733,175	3,562,466
Grants and contributions not restricted	13,796,603	12,923,999
Other	<u>720,426</u>	<u>267,207</u>
Total Revenues	<u>24,376,915</u>	<u>22,569,142</u>
Expenses:		
Instruction	12,403,177	11,823,992
Support services	9,378,329	8,086,549
Non-instructional	1,601,578	1,472,841
Sixteenth section	10,993	76,615
Interest and other expenses on long-term liabilities	<u>308,127</u>	<u>329,916</u>
Total Expenses	<u>23,702,204</u>	<u>21,789,913</u>
Increase in Net Assets	<u>\$ 674,711</u>	<u>779,229</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for the years ending June 30, 2006 and June 30, 2005. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>		<u>Total Net (Expense) Revenue</u>	
	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Instruction	\$ 12,403,177	11,823,992	(8,232,325)	(7,826,281)
Support services	9,378,329	8,086,549	(9,094,281)	(7,773,563)
Non-instructional	1,601,578	1,472,841	67,518	19,304
Sixteenth section	10,993	76,615	(8,278)	(63,987)
Interest on long-term liabilities	<u>308,127</u>	<u>329,916</u>	<u>(308,127)</u>	<u>(329,916)</u>
Total Expenses	<u>\$ 23,702,204</u>	<u>21,789,913</u>	<u>(17,575,493)</u>	<u>(15,974,443)</u>

- Net cost of governmental activities (\$17,575,493) was financed by general revenue, which is made up of primarily property taxes (\$3,733,175), state revenue (\$13,417,076) federal revenue (\$379,527), and sixteenth section sources (\$133,166).

- Investment earnings accounted for \$208,731 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,531,910, an increase of \$143,132 due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$6,629,430 or 88% 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 \$902,480 or 12% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$152,242. The increase in fund balance of the General Fund was due to an increase during the year of ongoing revenues over normal expenditures. The fund balance of the Sixteenth Section Interest Fund increased \$120,357 during the fiscal year. This increase was due to the fact that only limited expenses were necessary during the year. The fund balance of Other Governmental Funds showed a decrease of \$22,081. The fund balance of the School Note Construction Fund showed a decrease of \$107,415. This decrease was due to an increase in expenses for the fiscal year.

BUDGETARY HIGHLIGHTS

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$20,917,959 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$230,823 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$8,378,521 and total depreciation expense for the year was \$509,002 resulting in total net assets of \$12,539,438.

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

Debt Administration. At June 30, 2006, the District had \$6,455,000 in general obligation bonds and other long-term debt outstanding, of which \$510,000 is due within one year. The district retired \$485,000 of long-term debt during the year ended June 30, 2006.

The District maintains an AA- bond rating.

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

LEAKE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

LEAKE COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 6,185,537
Due from other governments	856,406
Lease receivable, net	6,379
Other receivables, net	5,995
Inventories and prepaid items	33,398
Restricted assets	504,721
Capital assets not being depreciated:	
Land	463,095
Capital assets, net of accumulated depreciation:	
Buildings	10,717,863
Improvements other than buildings	184,479
Mobile equipment	898,412
Furniture and equipment	275,589
Total Assets	\$ <u>20,131,874</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 9,898
Deferred revenue	50,627
Interest payable on long-term liabilities	123,804
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	510,000
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	5,945,000
Non-capital related liabilities	133,565
Total Liabilities	\$ <u>6,772,894</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 6,084,438
Restricted net assets:	
Expendable:	
School - based activities	1,695,145
Debt service	670,314
Forestry improvements	151,199
Unemployment benefits	74,964
Capital improvement	1,048,609
Non-expendable:	
Sixteenth section	234,755
Unrestricted	3,399,556
Total Net Assets	\$ <u>13,358,980</u>

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

**LEAKE COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Assets</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Primary</u>
					<u>Governmental</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary Government:					
Governmental Activities:					
Instruction	\$ 12,403,177	362,591	3,808,261		(8,232,325)
Support services	9,378,329		284,048		(9,094,281)
Non-instructional	1,601,578	339,296	1,329,800		67,518
Sixteenth section	10,993	2,715			(8,278)
Interest and other expenses on long-term liabilities	308,127			-	(308,127)
Total governmental activities	<u>\$ 23,702,204</u>	<u>704,602</u>	<u>5,422,109</u>	<u>-</u>	<u>(17,575,493)</u>

General Revenues:

Taxes:

General purpose levies	\$ 3,425,907
Debt purpose levies	307,268

Unrestricted grants and contributions:

State	13,417,076
Federal	379,527
Unrestricted investment earnings	208,731
Sixteenth section sources	133,166
Other	378,529
Total General Revenues	<u>18,250,204</u>

Change in Net Assets 674,711

Net Assets - Beginning 12,684,269

Net Assets - Ending \$ 13,358,980

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

LEAKE COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2006

Major Funds	ASSETS									
	General Fund	Title I Grants to Local Education Agencies Fund	Hurricane Katrina Displaced Students Fund	Education Technology Fund	Special Education Funds	Sixteenth Section Interest Fund	School Note Construction Fund	Other Governmental Funds	Total Governmental Funds	
Cash and cash equivalents (Note 3)	\$ 2,942,435	1		44,976	1,402,066	1,048,609	982,206	6,420,293		
Cash with fiscal agents (Note 3)	251,429	42,300	59,347	180,146			269,965	269,965		
Due from other governments					6,379		323,184	856,406		
Lease receivable, net	5,630	365					653	6,379		
Other receivable, net	346,633						33,398	347,286		
Due from other funds (Note 4)								5,995		
Inventories and prepaid items										
Total Assets	\$ 3,546,127	42,666	59,347	180,146	1,408,445	1,048,609	1,609,406	7,939,722		
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable and accrued liabilities	\$ 9,007	336					556	9,899		
Due to other funds (Note 4)	4,000	42,300	59,347	180,146			61,493	347,286		
Deferred revenue				44,976			5,651	50,627		
Total Liabilities	13,007	42,636	59,347	180,146	44,976		67,700	407,812		
Fund Balances:										
Reserved for:										
Inventories							33,398	33,398		
Unemployment benefits							74,964	74,964		
Debt Service funds							794,118	794,118		
Unreserved:										
Undesignated, reported in:										
General fund	3,533,120	30			1,408,445		404,471	3,533,120		
Special Revenue funds						1,048,609		1,812,946		
Capital Projects funds								1,048,609		
Permanent funds							234,755	234,755		
Total Fund Balances	3,533,120	30			1,408,445	1,048,609	1,541,706	7,531,910		
Total Liabilities and Fund Balances	\$ 3,546,127	42,666	59,347	180,146	1,408,445	1,048,609	1,609,406	7,939,722		

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

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

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 7,531,910
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 \$12,503,754	12,539,438
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 6)	(6,588,564)
3. Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds	<u>(123,804)</u>
Total Net Assets - Governmental Activities	\$ <u><u>13,358,980</u></u>

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

Major Funds	Title I - Grants							Hurricane Katrina Displaced Students Fund	Education Technology Fund	Special Education Funds	Sixteenth Section Interest Fund	School/Note Construction Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Educational Agencies Fund	to Local	to Local	to Local	to Local	to Local							
Revenues:														
Local sources	\$ 3,946,811											41,868	674,767	4,663,656
State sources	13,081,504												1,227,777	14,309,281
Federal sources	402,777	1,347,259	64,285	272,726	771,591	210							2,050,792	4,909,430
Sixteenth section sources			64,285										15,168	135,883
Total Revenues	<u>17,431,092</u>	<u>1,347,259</u>	<u>64,285</u>	<u>272,726</u>	<u>771,801</u>	<u>210</u>							<u>3,968,504</u>	<u>24,018,250</u>
Expenditures:														
Instruction	10,128,630	635,413	12,962	18,661	326,759								1,258,654	12,381,079
Support services	6,861,014	643,361	51,323	254,065	436,376								1,073,492	9,414,360
Noninstructional services	62,528	55,756											1,497,000	1,615,284
Sixteenth section										358			10,635	10,993
Facilities acquisition and construction												90,300		90,300
Debt service:														
Principal														
Interest														
Other													485,000	485,000
Total Expenditures	<u>17,052,172</u>	<u>1,334,530</u>	<u>64,285</u>	<u>272,726</u>	<u>763,135</u>							<u>185,029</u>	<u>4,641,727</u>	<u>24,313,962</u>
Excess (Deficiency) of Revenues Over Expenditures	378,920	12,729	0	0	8,666								(673,223)	(295,712)
Other Financing Sources (Uses):														
Insurance loss recoveries	437,224													437,224
Sale of transportation equipment	3,182													3,182
Sale of other property	1,292													1,292
Operating transfers in	1,904,355												760,369	2,700,470
Operating transfers out	(2,567,252)	(12,700)			(8,666)								(111,852)	(2,700,470)
Other financing uses	(5,479)													(5,479)
Total Other Financing Sources (Uses)	<u>(226,678)</u>	<u>(12,700)</u>	<u>0</u>	<u>0</u>	<u>(8,666)</u>	<u>0</u>						<u>35,746</u>	<u>648,517</u>	<u>436,219</u>
Net Change in Fund Balances	152,242	29	0	0	0								(24,706)	140,507
Fund Balances:														
July 1, 2005	3,380,878	1	0	0	0								1,563,787	7,388,778
Increase (decrease) in reserved for inventory													2,625	2,625
June 30, 2006	<u>\$ 3,533,120</u>	<u>30</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>						<u>1,408,443</u>	<u>1,541,706</u>	<u>7,531,910</u>

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

LEAKE COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2006

		<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$	140,507
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 \$622,240 and the depreciation expense amounted to \$509,002. (Note 5)		113,238
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)		485,000
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:		
Losses on sales of capital assets		(73,080)
Proceeds from sales of capital assets		(4,474)
4. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:		
Increase in accrued compensated absences		2,075
Accrued interest on bonds increase		8,820
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds and as increase in noninstructional expenditures in the statement of activities		<u>2,625</u>
Change in Net Assets of Governmental Activities	\$	<u><u>674,711</u></u>

LEAKE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 900,392
Other receivable	<u>409</u>
Total Assets	\$ <u><u>900,801</u></u>
Liabilities	
Accrued payroll	\$ 587,849
Salary benefits and withholdings payable	189,233
Due to student clubs	118,909
Other payables	<u>4,810</u>
Total Liabilities	\$ <u><u>900,801</u></u>
Net Assets	
Total Net Assets	\$ <u><u>-</u></u>

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

LEAKE COUNTY SCHOOL DISTRICT

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

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

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

The school district reports the following major governmental funds:

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

Title I, Grants to Local Educational Agencies Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title I, Grants to Local Educational Agencies revenues received by the District.

Hurricane Katrina Displaced Student Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Hurricane Katrina Displaced Student's Fund revenues received by the District.

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

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

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

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

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 *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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 asset 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 schedule details those thresholds.

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

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

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. 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.

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

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

Fund Financial Statements:

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

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

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

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

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

As required, the Leake County 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 and Cash with Fiscal Agents.

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

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

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 \$6,420,293, and \$900,392, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$6,185,537 and restricted assets \$504,721. The restricted assets represents the cash balance of sixteenth section principal funds (permanent funds) in the amount of \$234,756 and MAEP funds (other governmental funds) in the amount of \$269,965 which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,670,886.

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

Custodial Credit Risk – Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, \$0 of the district's bank balance of \$9,670,886 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 \$269,965.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental funds:		
General fund	\$ 346,633	4,000
Other major funds		
Title I, Grants to Local Educational Agencies Fund		42,300
Education Technology Fund		180,146
Hurricane Katrina Displaced Students Fund		59,347
Other governmental funds	653	61,493
Total Funds	\$ 347,286	347,286

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 1,904,355	2,567,252
Other major fund(s)		
Title I Grants to Local Educational Agencies Fund		12,700
Special Education Funds		8,666
School Note Construction Fund	35,746	
Other governmental funds	760,369	111,852
Total Funds	<u>\$ 2,700,470</u>	<u>2,700,470</u>

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

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(5) Capital Assets.

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retire- ments</u>	<u>Completed Construction</u>	<u>Balance 6/30/2006</u>
<u>Non-depreciable Capital Assets:</u>					
Land	\$ 463,095				463,095
Construction in progress	38,846	90,300	0	(129,146)	0
Total Non-depreciable Capital Assets	<u>501,941</u>	<u>90,300</u>	<u>0</u>	<u>(129,146)</u>	<u>463,095</u>
<u>Depreciable Capital Assets:</u>					
Buildings	16,590,575				16,590,575
Improvements other than buildings	90,912			129,146	220,058
Mobile equipment	2,702,947	291,000	(250,531)		2,743,416
Furniture and equipment	800,761	240,940	(140,886)		900,815
Total Depreciable Capital Assets	<u>20,185,195</u>	<u>531,940</u>	<u>(391,417)</u>	<u>129,146</u>	<u>20,454,864</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings	5,611,875	260,837			5,872,712
Improvements other than buildings	26,777	8,802			35,579
Mobile equipment	1,913,589	141,106	(209,691)		1,845,004
Furniture and equipment	631,141	98,257	(104,172)		625,226
Total Accumulated Depreciation	<u>8,183,382</u>	<u>509,002</u>	<u>(313,863)</u>		<u>8,378,521</u>
 Total Depreciable Capital Assets, Net	 <u>12,001,813</u>	 <u>22,938</u>	 <u>(77,554)</u>	 <u>129,146</u>	 <u>12,076,343</u>
 Governmental Activities Capital Assets, Net	 \$ <u>12,503,754</u>	 <u>113,238</u>	 <u>(77,554)</u>	 <u>0</u>	 <u>12,539,438</u>

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 165,484
Support services	330,961
Non-instructional	12,557
Total Depreciation Expense	\$ <u>509,002</u>

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(6) Long-term liabilities.

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

	<u>Balance</u> <u>7-1-2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6-30-2006</u>	<u>Amounts</u> <u>due</u> <u>within one</u> <u>Year</u>
A. General obligation bonds payable	\$ 790,000		65,000	725,000	70,000
B. Limited obligation bonds payable	4,640,000		230,000	4,410,000	245,000
C. Other loans payable	1,510,000		190,000	1,320,000	195,000
D. Compensated absences payable	<u>135,640</u>		<u>2,075</u>	<u>133,565</u>	
Total	<u>\$ 7,075,640</u>		<u>487,075</u>	<u>6,588,565</u>	<u>510,000</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
General obligation Refunding bonds	Varies	9-1-01	1-15-15	\$ <u>1,060,000</u>	<u>725,000</u>
Total				\$ <u>1,060,000</u>	<u>725,000</u>

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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

	Year Ending June 30	Principal	Interest	Total
2007	\$ 70,000	31,073	101,073	
2008	70,000	28,360	98,360	
2009	75,000	25,560	100,560	
2010	75,000	22,485	97,485	
2011	80,000	19,298	99,298	
2012-2016	355,000	40,808	395,808	
Total	\$ 725,000	167,584	892,584	

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 5% of property assessments as of October 1, 2005. This debt will be retired from the Education Enhancement Funds - Buildings and Buses fund.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement	Varies	2-1-98	2-1-18	\$ 5,600,000	4,410,000
Total				\$ 5,600,000	4,410,000

LEAKE COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 245,000	207,788	452,788
2008	255,000	207,788	462,788
2009	270,000	184,725	454,725
2010	285,000	172,095	457,095
2011	300,000	158,490	458,490
2012-2016	1,750,000	552,315	2,302,315
2017-2021	1,305,000	89,000	1,394,000
Total	\$ 4,410,000	1,572,201	5,982,201

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

C. Other loans payable.

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

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
\$1,850,000 limited tax notes	Varies	5-19-97	1-15-08	\$ 1,850,000	325,000
\$1,500,000 limited tax notes	Varies	3-19-02	3-1-14	1,500,000	995,000
Total				\$ 3,350,000	1,320,000

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 195,000	56,886	251,886
2008	195,000	48,756	243,756
2009	165,000	40,542	205,542
2010	175,000	33,777	208,777
2011	175,000	33,777	208,777
2012-2016	415,000	36,753	451,753
Total	\$ 1,320,000	250,491	1,570,491

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

D. Compensated absences payable.

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

(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 \$1,394,877, \$1,177,578, and \$1,082,888, respectively, which equaled the required contributions for each year.

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

(8) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Water cooler
2. Neopost digital mailing system

Lease expenditures for the year ended June 30, 2006, amounted to \$840. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2007	\$ 785
2008	785
2009	785
2010	196
Total	\$ <u>2,551</u>

(9) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2007	\$ 59,407
2008	55,987
2009	53,337
2010	39,374
2011	32,005

LEAKE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2006

Year Ending June 30	Amount
2012 – 2016	\$ 159,875
2017 – 2021	159,875
2022 – 2026	159,875
2027 – 2031	115,884
Thereafter	138,832
Total	\$ 974,451

(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.

LEAKE COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

LEAKE COUNTY 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	\$ 4,232,356	4,400,974	3,946,811	168,618	(454,163)
State sources	13,094,262	12,960,466	13,081,504	(133,796)	121,038
Federal sources	658,059	728,059	402,777	70,000	(325,282)
Total Revenues	17,984,677	18,089,499	17,431,092	104,822	(658,407)
Expenditures:					
Instruction	10,698,580	10,748,183	10,128,630	(49,603)	619,553
Support services	7,735,785	7,990,882	6,861,014	(255,097)	1,129,868
Noninstructional services	68,931	76,818	62,528	(7,887)	14,290
Total Expenditures	18,503,296	18,815,883	17,052,172	(312,587)	1,763,711
Excess (Deficiency) of Revenues Over Expenditures	(518,619)	(726,384)	378,920	(207,765)	1,105,304
Other Financing Sources (Uses):					
Insurance loss recoveries	1,000	438,475	437,224	437,475	(1,251)
Sale of transportation equipment	1,000	1,000	3,182	0	2,182
Sale of other property	300	2,300	1,292	2,000	(1,008)
Operating transfers in	2,230,478	2,230,478	1,904,355	0	(326,123)
Other financing sources	100	100	0	0	(100)
Operating transfers out	(2,852,798)	(2,852,798)	(2,567,252)	0	285,546
Other financing uses	(5,500)	(5,500)	(5,479)	0	21
Total Other Financing Sources (Uses)	(625,420)	(185,945)	(226,678)	439,475	(40,733)
Net Change in Fund Balances	(1,144,039)	(912,329)	152,242	231,710	1,064,571
Fund Balances:					
July 1, 2005	3,375,499	3,380,878	3,380,878	5,379	0
June 30, 2006	\$ 2,231,460	2,468,549	3,533,120	237,089	1,064,571

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

LEAKE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Title I - Grants to Local Educational Agencies
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Federal sources	\$ 1,562,616	1,544,627	1,347,259	(17,989)	(197,368)
Total Revenues	<u>1,562,616</u>	<u>1,544,627</u>	<u>1,347,259</u>	<u>(17,989)</u>	<u>(197,368)</u>
Expenditures:					
Instruction	747,345	712,354	635,413	34,991	76,941
Support services	745,961	754,751	643,361	(8,790)	111,390
Noninstructional services	56,310	64,522	55,756	(8,212)	8,766
Total Expenditures	<u>1,549,616</u>	<u>1,531,627</u>	<u>1,334,530</u>	<u>17,989</u>	<u>197,097</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>13,000</u>	<u>13,000</u>	<u>12,729</u>	<u>0</u>	<u>(271)</u>
Other Financing Sources (Uses):					
Operating transfers out	(13,000)	(13,000)	(12,700)	0	300
Total Other Financing Sources (Uses)	<u>(13,000)</u>	<u>(13,000)</u>	<u>(12,700)</u>	<u>0</u>	<u>300</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>29</u>	<u>-</u>	<u>29</u>
Fund Balances:					
July 1, 2005	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ 1</u>	<u>1</u>	<u>30</u>	<u>-</u>	<u>29</u>

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

LEAKE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Hurricane Katrina Displaced Students Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances</u> <u>Positive</u> <u>(Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original</u> <u>to Final</u>	<u>Final</u> <u>to Actual</u>
Revenues:					
Federal sources	\$ 0	64,285	64,285	64,285	0
Total Revenues	<u>0</u>	<u>64,285</u>	<u>64,285</u>	<u>64,285</u>	<u>0</u>
Expenditures:					
Instruction	0	12,962	12,962	(12,962)	0
Support services	0	51,323	51,323	(51,323)	0
Total Expenditures	<u>0</u>	<u>64,285</u>	<u>64,285</u>	<u>(64,285)</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources (Uses):					
Operating transfers out	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note: The school did not receive this money until after the original budget was adopted; therefore, there is no original budget.

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

LEAKE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Education Technology Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 73,312	509,646	272,726	436,334	(236,920)
Total Revenues	<u>73,312</u>	<u>509,646</u>	<u>272,726</u>	<u>436,334</u>	<u>(236,920)</u>
Expenditures:					
Instruction		18,662	18,661	(18,662)	1
Support services	73,312	332,921	254,065	(259,609)	78,856
Total Expenditures	<u>73,312</u>	<u>351,583</u>	<u>272,726</u>	<u>(278,271)</u>	<u>78,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>158,063</u>	<u>0</u>	<u>158,063</u>	<u>(158,063)</u>
Other Financing Sources (Uses):					
Operating transfers out					
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>-</u>	<u>158,063</u>	<u>-</u>	<u>158,063</u>	<u>(158,063)</u>
Fund Balances:					
July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ -</u>	<u>158,063</u>	<u>-</u>	<u>158,063</u>	<u>(158,063)</u>

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

LEAKE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Special Education Funds
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances</u> <u>Positive</u> <u>(Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original</u> <u>to Final</u>	<u>Final</u> <u>to Actual</u>
Revenues:					
Local sources	\$ 0		210		210
Federal sources	914,561	875,810	771,591	(38,751)	(104,219)
Total Revenues	<u>914,561</u>	<u>875,810</u>	<u>771,801</u>	<u>(38,751)</u>	<u>(104,009)</u>
Expenditures:					
Instruction	425,331	383,873	326,759	41,458	57,114
Support services	482,947	485,654	436,376	(2,707)	49,278
Total Expenditures	<u>908,278</u>	<u>869,527</u>	<u>763,135</u>	<u>38,751</u>	<u>106,392</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,283</u>	<u>6,283</u>	<u>8,666</u>	<u>0</u>	<u>2,383</u>
Other Financing Sources (Uses):					
Operating transfers out	(6,283)	(6,283)	(8,666)	0	(2,383)
Total Other Financing Sources (Uses)	<u>(6,283)</u>	<u>(6,283)</u>	<u>(8,666)</u>	<u>0</u>	<u>(2,383)</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2005	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

LEAKE COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Local sources	\$ 2,382	2,382			(2,382)
Sixteenth section sources	285,000	313,000	120,715	28,000	(192,285)
Total Revenues	<u>287,382</u>	<u>315,382</u>	<u>120,715</u>	<u>28,000</u>	<u>(194,667)</u>
Expenditures:					
Sixteenth section	5,000	5,000	358	0	4,642
Total Expenditures	<u>5,000</u>	<u>5,000</u>	<u>358</u>	<u>0</u>	<u>4,642</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>282,382</u>	<u>310,382</u>	<u>120,357</u>	<u>28,000</u>	<u>(190,025)</u>
Other Financing Sources (Uses):					
Operating transfers in	4,200	4,200	0	0	(4,200)
Operating transfers out				0	0
Total Other Financing Sources (Uses)	<u>4,200</u>	<u>4,200</u>	<u>0</u>	<u>0</u>	<u>(4,200)</u>
Net Change in Fund Balances	<u>286,582</u>	<u>314,582</u>	<u>120,357</u>	<u>28,000</u>	<u>(194,225)</u>
Fund Balances:					
July 1, 2005	<u>1,288,088</u>	<u>1,288,088</u>	<u>1,288,088</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 1,574,670</u>	<u>1,602,670</u>	<u>1,408,445</u>	<u>28,000</u>	<u>(194,225)</u>

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

LEAKE COUNTY SCHOOL DISTRICT

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

Notes to the Required Supplementary Information

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, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

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

LEAKE COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

LEAKE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog Of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 83,651
Child Nutrition cluster:		
School breakfast program	10.553	328,609
National school lunch program	10.555	909,318
Total child nutrition cluster		<u>1,237,927</u>
Fruit and vegetable program	10.582	13,462
Total U.S. Department of Agriculture		<u>1,335,040</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	261,452
Total Federal Communications Commission		<u>261,452</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Medical Assistance Program	93.778	58,311
Total Passed-through Mississippi Department of Health and Human Services		<u>58,311</u>
Total U.S. Department of Health and Human Services		<u>58,311</u>
<u>U.S. Department of Homeland Security</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	23,250
Total U.S. Department of Homeland Security		<u>23,250</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,361,405
Vocational Education - basic grants to states	84.048	60,084
State grants for innovative programs	84.298	96,231
Rural education	84.358	82,839
Improving teacher quality - state grants	84.367	258,978
Safe and drug-free schools and communities - state grants	84.186	34,387
English language acquisition grants	84.365	86,543
Education technology state grants	84.318	272,726
Gaining early awareness and readiness for undergraduate programs	84.334	27,513
Hurricane Education Recovery	84.938	64,285
Grants for state assessments and related activities	84.369	18,264
Comprehensive school reform demonstration	84.332	67,473
Total		<u>2,430,728</u>

LEAKE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog Of Federal Domestic Assistance No.	Federal Expenditures
Special Education cluster:		
Special Education - grants to states	84.027	\$ 806,591
Special Education - preschool grants	84.173	34,267
Total Special Education Cluster		<u>840,858</u>
Total Passed-through Mississippi Department of Education		<u>3,271,586</u>
Total U.S. Department of Education		<u>3,271,586</u>
Total for All Federal Awards		\$ <u>4,949,639</u>

NOTES TO SCHEDULE

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

LEAKE PUBLIC SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures -
Governmental Funds
For the Year Ended June 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student</u>			<u>Other</u>
		<u>Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	
Salaries and fringe benefits	\$ 17,346,705	13,235,416	1,017,057	1,165,180	1,929,052
Other	6,967,257	2,017,065	532,797	154,378	4,263,017
Total	\$ 24,313,962	15,252,481	1,549,854	1,319,558	6,192,069
Total number of students	3,139				
Cost per student	\$ 7,746	4,859	494	420	1,973

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

LEAKE COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA
 Harry W. Stevens, CPA
 Paul A. Ray, CPA
 S. Keith Winfield, CPA
 William B. Stagers, CPA
 Aubrey R. Holder, CPA
 David M. Howell, CPA
 Michael W. McCully, CPA
 Mort Stroud, CPA
 Gary C. Hamilton, CPA
 R. Steve Sinclair, CPA

Michael L. Pierce, CPA
 Marsha L. McDonald, CPA
 Wanda S. Holley, CPA
 Robin Y. McCormick, CPA/PFS
 J. Randy Scrivner, CPA
 Kimberly S. Caskey, CPA
 Susan M. Lummus, CPA
 Thomas J. Browder, CPA
 Stephen D. Flake, CPA
 John N. Russell, CPA
 Kenny Dickerson, CPA

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

Superintendent and School Board
 Leake County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District as of and for the year ended June 30, 2006, which collectively comprise the Leake County School District's basic financial statements and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
October 20, 2006

Watkins, Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

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 Kimberly S. Caskey, CPA
 Susan M. Lummus, CPA
 Thomas J. Browder, CPA
 Stephen D. Flake, CPA
 John N. Russell, CPA
 Kenny Dickerson, CPA

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

Superintendent and School Board
 Leake County School District

Compliance

We have audited the compliance of the Leake County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Finding and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Leake County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Leake County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
October 20, 2006



LEAKE COUNTY SCHOOL DISTRICT

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



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Sta...ord, CPA
 Harry W. Stevens, CPA
 Paul A. Ray, CPA
 S. Keith Winfield, CPA
 William B. Stagers, CPA
 Aubrey R. Holder, CPA
 David M. Howell, CPA
 Michael W. McCully, CPA
 Mort Stroud, CPA
 Gary C. Hamilton, CPA
 R. Steve Sinclair, CPA

Michael L. Pierce, CPA
 Marsha L. McDonald, CPA
 Wanda S. Holley, CPA
 Robin Y. McCormick, CPA/PFS
 J. Randy Scrivner, CPA
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
 STATE LAWS AND REGULATIONS**

Superintendent and School Board
 Leake County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leake County School District as of and for the year ended June 30, 2006, which collectively comprise Leake County School District's basic financial statements and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$44,698 of classroom supply funds carried over from previous years.

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

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.

Watkins, Ward and Stafford, PLLC
 Philadelphia, Mississippi
 October 20, 2006

Watkins, Ward and Stafford, PLLC
 54

LEAKE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LEAKE COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditors' report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Title I grants to local educational agencies
CFDA # 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

LEAKE COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2006**

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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

LEAKE COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

LEAKE COUNTY SCHOOL DISTRICT

Financial & Compliance Audit Division

As required by Section __.315(c) of OMB Circular A-133, the Leake County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

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