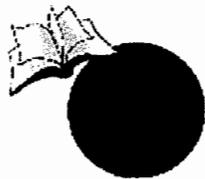




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Leland School District
Audited Financial Statements
June 30, 2006

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

FINANCIAL AUDIT REPORT

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

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

Superintendent and School Board
Leland School District

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

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

In my opinion the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued our report dated November 1, 2006, on my consideration of the Leland School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 46 through 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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



J.E. Fortenberry, III, PC
November 1, 2006

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Leland School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$650,737, which represents more than a 30% increase from fiscal year 2005.
- General revenues account for \$7,412,388 in revenue, or 72% of all revenues. This amount was slightly higher (percentage-wise) when compared to the general revenues reported for the year 2005, which consisted of \$7,055,821 in general revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions for this year accounted for \$2,820,371 or 28% of total revenues compared with \$2,873,141 in 2005.
- The District had \$9,582,022 in expenses, amount that increased when compared with the \$9,144,943 in expenses for the prior year; only \$2,820,371 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,412,388 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,316,066 in revenues and \$6,524,235 in expenditures. In 2005 the General Fund had \$6,751,542 in revenues and \$5,829,894 in expenditures. The General Fund's fund balance increased \$282,412 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$37,825.
- Long-term debt increased by \$743,305 due to the QZAB long term debt issued.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 17 and 18 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide

financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 26, respectively.

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

The basic governmental fund financial statements can be found on pages 20 and 24 of this report.

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 on page 27.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-44 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 46-52 of this report.

Additionally, a schedule of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 54 and 55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$2,855,029 as of June 30, 2006.

The District's investment in capital assets, net of related debt (16%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

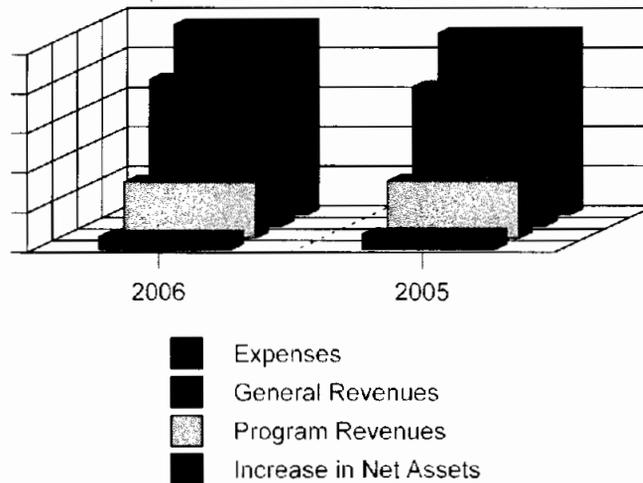
The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 and 2005.

	2006	2005	Percentage Change
Assets			
Current assets	\$ 4,745,771	3,317,873	43%
Capital assets, net	2,470,643	2,508,468	-2%
Total assets	7,216,414	5,826,341	24%
Liabilities			
Current liabilities	73,629	77,598	-5%
Long-term liabilities	4,287,756	3,544,451	21%
Total liabilities	4,361,385	3,622,049	20%
Net Assets:			
Invested in capital assets, net of related debt	442,746	265,145	67%
Restricted	3,123,768	1,992,083	57%
Unrestricted	(711,485)	(52,936)	1244%
Total Net Assets	\$ 2,855,029	2,204,292	30%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$10,232,759. The total cost of all programs and services was \$9,582,022. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006.

	2006	2005	Percentage Change
Revenues			
Program Revenues			
Charges for services	\$ 101,641	116,428	-13%
Operating Grants and Contributions	2,682,111	2,716,480	-1%
Capital Grants and Contributions	36,619	40,233	-9%
Total Program Revenues	2,820,371	2,873,141	-2%
General Revenues			
Property Taxes	1,663,122	1,713,998	-3%
Unrestricted Grants and Contributions	5,351,381	5,039,864	6%
Unrestricted Investment Earnings	131,676	45,118	192%
Sixteenth Section Sources	255,271	238,814	7%
Other	10,938	18,027	-39%
Total General Revenues	7,412,388	7,055,821	5%
Total revenues	10,232,759	9,928,962	3%
Expenses			
Instruction	4,802,374	4,511,402	6%
Support services	3,875,626	3,674,266	5%
Non-instructional	715,848	762,875	-6%
Sixteenth section	19,971	19,064	5%
Interest on long-term liabilities	168,203	177,336	-5%
Total expenses	9,582,022	9,144,943	5%
Increase (Decrease) in net assets	650,737	784,019	-17%
Net Assets, July 1	2,204,292	437,376	404%
Prior Period Adjustment	-	982,897	
Net Assets, June 30	\$ 2,855,029	2,204,292	30%

Comparative Chart of Statement of Activities Data

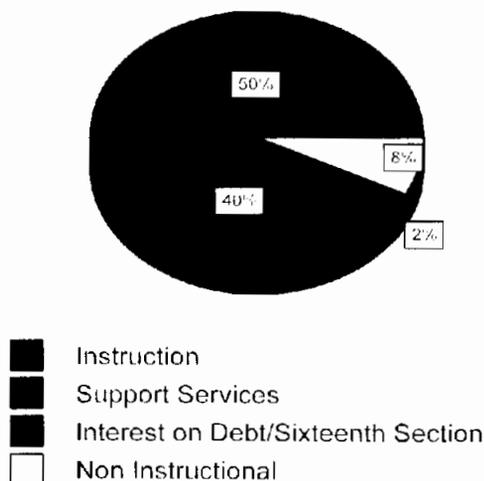


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated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

			2006	2005
	2006	2005	Net (Expense)	Net (Expense)
	Expenses	Expenses	Revenue	Revenue
Instruction	\$ 4,802,374	4,511,402	(4,136,256)	(4,298,037)
Support Services	3,875,626	3,674,266	(2,374,762)	(1,873,365)
Non-Instructional	715,848	762,875	(62,459)	96,000
Sixteenth Section	19,971	19,064	(19,971)	(19,064)
Interest on Long-Term Liabilities	168,203	177,336	(168,203)	(177,336)
	\$ 9,582,022	9,144,943	(6,761,651)	(6,271,802)

- Net cost of governmental activities (\$6,761,651), was financed by general revenue, which is made up of primarily property taxes (\$1,630,363) and state revenue (\$5,103,628).
- Sixteenth section sources accounted for \$255,271 of funding.

Chart as per Statement of Activities



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 \$4,718,035, an increase of \$1,428,041 due primarily to the receipt of proceeds from a Qualified Zone Academy Bonds in the amount of \$1,000,000. The District was not able to fill several teaching slots due to teacher shortages and had to use certified retirees to fill slots budgeted at full salaries. Also, several first year teachers were employed to replace retiring or leaving teachers who had many years of experience. The District continues to benefit from the support of E-Rate at the 90% reimbursement level for eligible expenditures. Professional development grants, such as America's Choice, have paid for expenditures otherwise paid for by the District. The Leland School District also received more MAEP Funds in 2006 than in 2005. Due to the efforts of the Superintendent and School Board to operate in the most frugal way feasible, the District Maintenance Fund has not had to use any of its Sixteenth Section Rent money in the past four (4) years to maintain the normal operations of the School District. \$4,697,892 or 99.57% 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 \$20,143 or 0.43% 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 \$282,412, a result of reduction in expenditures for personnel. The District was not able to fill several teaching slots due to teacher shortages and had to use certified retirees to fill slots budgeted at full salaries. Also, several first year teachers were employed to replace retiring or leaving teachers who had many years of experience. The District continues to benefit from the support of E-Rate at the 90% reimbursement level for eligible expenditures. Professional development grants, such as America's Choice, have paid for expenditures otherwise paid for by the District. The Leland School District also received more MAEP Funds in 2006 than in 2005. Due to the efforts of the Superintendent and School Board to operate in the most frugal way feasible, the District Maintenance Fund has not had to use any of its Sixteenth Section Rent money in the past four (4) years to maintain the normal operations of the School District.

The increase in the Sixteenth Section Interest Fund was \$234,561 due to the collection of rents from 2006 leases and interest earned in the account, while the increase in the QZAB Capital and Debt Retirement Fund was \$953,881 and \$39,041, respectively due to the receipt of proceeds of the new Qualified Zone Academy Bond and the earnings on investment, respectively. The fund balance of Other Governmental Funds showed a decrease of \$81,854 due primarily to a continued reduction in federal program allocations.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

Budget amounts for revenue from local, state and federal sources in the General Fund were increased primarily due to the final Adequate Education allocation, which was budgeted originally at an amount less than the tentative allocation as recommended by the Mississippi Department of Education as a safeguard for possible state funding cuts mid-year.

Budget amounts for expenditures were amended as funding sources/amounts changed. In FY 06 increases were made for higher costs of bus fuel and utilities and the continuation of district-wide facility improvement projects.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund, the Title I - A, the Title II Fund, and IDEA Part B PL94-142 Grant Fund, and Sixteenth Section Interest Fund 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 \$6,296,877, including land, school buildings, buses, other school vehicles, furniture and equipment. This amount represents an increase of \$156,965 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$3,826,234 and total depreciation expense for the year was \$195,040, resulting in total net capital assets of \$2,470,643. Additional information of the District's capital assets can be found in Note 5 on page 37 of this report.

	Capital Assets, Net of Depreciation		Percentage
	2006	2005	Change
Land	\$ 42,864	42,864	0%
Buildings	767,580	784,423	-2%
Building improvements	1,225,707	1,298,467	-6%
Improvements other than buildings	28,694	-	100%
Mobile equipment	51,862	62,590	-17%
Furniture and equipment	227,467	158,952	43%
Leased property under capital leases	126,469	161,172	-22%
	\$ 2,470,643	2,508,468	-2%

Debt Administration. At June 30, 2006, the District had \$4,287,756 in long-term debt outstanding, of which \$212,343 is due within one year. The District maintains an A bond rating. Additional information of the District's long-term debt can be found in Note 6 on page 38 of this report.

	2006	2005	Percentage Change
Limited obligation bonds payable	\$ 1,925,000	2,045,000	-6%
Obligation under capital leases	102,897	198,323	-48%
QZA bonds payable	2,000,000	1,000,000	100%
Other loans payable	195,500	229,068	-15%
Compensated absences payable	64,359	72,060	-11%
	\$ 4,287,756	3,544,451	21%

CURRENT ISSUES

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

LELAND SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets	
<i>Cash and cash equivalents</i>	\$ 3,902,134
<i>Cash with fiscal agents</i>	488,863
<i>Due from other governments</i>	317,475
<i>Inventories and prepaid items</i>	20,143
<i>Restricted assets</i>	17,156
<i>Capital assets, not being depreciated:</i>	
<i>Land</i>	42,864
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	767,580
<i>Building Improvements</i>	1,225,707
<i>Improvements other than buildings</i>	28,694
<i>Mobile Equipment</i>	51,862
<i>Furniture and equipment</i>	227,467
<i>Leased property under capital leases</i>	126,469
Total Assets	<u>7,216,414</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	27,736
<i>Interest payable on long-term liabilities</i>	45,893
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	175,569
<i>Non-capital related liabilities</i>	36,774
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	1,852,328
<i>Non-capital related liabilities</i>	2,223,085
Total Liabilities	<u>4,361,385</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	442,746
Restricted For:	
School Based Activities	1,285,913
Debt Service	788,802
Capital Improvements	1,013,298
Forestry Improvements	3,135
Unemployment Benefits	32,620
Unrestricted	(711,485)
Total Net Assets	<u>\$ 2,855,029</u>

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					Governmental Activities
Governmental Activities:					
Instruction	4,802,374	101,641	527,858	36,619	(4,136,256)
Support services	3,875,626	--	1,500,864	--	(2,374,762)
Noninstructional services	715,848	--	653,389	--	(62,459)
Sixteenth section	19,971	--	--	--	(19,971)
Interest on long-term liabilities	168,203	--	--	--	(168,203)
Total Primary Government	<u>\$ 9,582,022</u>	<u>\$ 101,641</u>	<u>\$ 2,682,111</u>	<u>\$ 36,619</u>	<u>(6,761,651)</u>
General Revenues:					
Taxes:					
General purpose levies					1,624,965
Debt purpose levies					5,398
Gaming					32,759
Unrestricted grants and contributions:					
State					5,103,628
Federal					247,753
Unrestricted investment earnings					131,676
Sixteenth section sources					255,271
Other					10,938
Total general revenues					<u>7,412,388</u>
Change in Net Assets					650,737
Net Assets - Beginning					2,204,292
Net Assets - Ending					<u>\$ 2,855,029</u>

The accompanying notes are an integral part of this statement.

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LELAND SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Title I Fund	Title II A Fund	IDEA Part B PL 94-142 Grant Fund
ASSETS				
<i>Cash and cash equivalents</i>	\$ 1,380,178	\$ --	\$ --	\$ --
<i>Cash with fiscal agents</i>	--	--	--	--
<i>Due from other governments</i>	126,805	43,306	11,215	12,355
<i>Due from other funds</i>	73,332	--	--	--
<i>Inventories and prepaid items</i>	--	--	--	--
Total Assets	\$ 1,580,315	\$ 43,306	\$ 11,215	\$ 12,355
LIABILITIES AND FUND BALANCES				
Liabilities:				
<i>Accounts payable and accrued liabilities</i>	\$ 20,067	\$ 2,088	\$ --	\$ 27
<i>Due to other funds</i>	--	41,218	11,215	12,328
Total Liabilities	20,067	43,306	11,215	12,355
Fund balances:				
Reserved for:				
<i>Inventory</i>	--	--	--	--
<i>Unemployment</i>	--	--	--	--
<i>Forestry</i>	--	--	--	--
<i>Permanent funds</i>	--	--	--	--
Unreserved, undesignated, reported in:				
<i>General fund</i>	1,560,248	--	--	--
<i>Special Revenue funds</i>	--	--	--	--
<i>Capital projects funds</i>	--	--	--	--
<i>Debt service funds</i>	--	--	--	--
Total Fund Balances	1,560,248	--	--	--
Total Liabilities and Fund Balances	\$ 1,580,315	\$ 43,306	\$ 11,215	\$ 12,355

<u>Sixteenth Section Interest</u>	<u>2005 QZAB Capital Fund</u>	<u>QZAB Debt Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,152,623	\$ 953,881	\$ 172,979	\$ 259,629	\$ 3,919,290
--	--	339,593	149,270	488,863
--	--	--	123,794	317,475
--	--	--	--	73,332
--	--	--	20,143	20,143
<u>\$ 1,152,623</u>	<u>\$ 953,881</u>	<u>\$ 512,572</u>	<u>\$ 552,836</u>	<u>\$ 4,819,103</u>
\$ --	\$ --	\$ --	\$ 5,554	\$ 27,736
--	--	--	8,571	73,332
--	--	--	14,125	101,068
--	--	--	20,143	20,143
--	--	--	32,620	32,620
--	--	--	3,135	3,135
--	--	--	17,156	17,156
--	--	--	--	1,560,248
1,152,623	--	--	133,290	1,285,913
--	953,881	--	59,417	1,013,298
--	--	512,572	272,950	785,522
<u>1,152,623</u>	<u>953,881</u>	<u>512,572</u>	<u>538,711</u>	<u>4,718,035</u>
<u>\$ 1,152,623</u>	<u>\$ 953,881</u>	<u>\$ 512,572</u>	<u>\$ 552,836</u>	<u>\$ 4,819,103</u>

LELAND SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances - governmental funds balance sheet	\$ 4,718,035
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,470,643
Liabilities due in one year are not reported in the funds.	(212,343)
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,800,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(52,328)
Payables for bond interest which are not due in the current period are not reported in the funds.	(45,893)
Payables for compensated absences not due in the current period are not reported in the funds.	(61,141)
Other long-term liabilities not due and payable in the current period are not reported in the funds.	<u>(161,944)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 2,855,029</u>

The accompanying notes are an integral part of this statement.

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LELAND SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Title I Fund	Title II A Fund	IDEA Part B PL 94-142 Grant Fund
Revenue:				
Local sources	\$ 1,825,214	\$ --	\$ --	\$ --
State sources	4,976,149	--	--	--
Federal sources	514,703	758,535	177,442	297,021
Sixteenth section sources	--	--	--	--
Total revenues	<u>7,316,066</u>	<u>758,535</u>	<u>177,442</u>	<u>297,021</u>
Expenditures:				
Instruction	3,610,904	262,959	174,614	128,750
Support services	2,763,181	368,160	2,828	166,771
Noninstructional services	35,200	112,478	--	--
Sixteenth section	--	--	--	--
Debt service:				
Principal	107,910	--	--	--
Interest	7,040	--	--	--
Total expenditures	<u>6,524,235</u>	<u>743,597</u>	<u>177,442</u>	<u>295,521</u>
Excess (deficiency) of revenues (over) expenditures	791,831	14,938	--	1,500
Other financing sources (uses):				
Proceeds of general obligation bonds	--	--	--	--
Sale of transportation equipment	100	--	--	--
Operating transfers in	709,346	--	--	--
Other financing sources	--	--	--	--
Operating transfers out	(1,141,942)	(14,938)	--	(1,500)
Other financing uses	(76,923)	--	--	--
Total other financing sources (uses)	<u>(509,419)</u>	<u>(14,938)</u>	<u>--</u>	<u>(1,500)</u>
Net change in fund balance	282,412	--	--	--
Fund Balances:				
July 1, 2005	1,277,836	--	--	--
Increase (decrease) in reserve for inventory	--	--	--	--
June 30, 2006	<u>\$ 1,560,248</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

Sixteenth Section Interest	2005 QZAB Capital Fund	QZAB Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 12,147	\$ 39,041	\$ 87,873	\$ 1,964,275
--	--	--	511,680	5,487,829
--	--	--	776,360	2,524,061
254,532	--	--	739	255,271
<u>254,532</u>	<u>12,147</u>	<u>39,041</u>	<u>1,376,652</u>	<u>10,231,436</u>
--	28,417	--	618,640	4,824,284
--	29,849	--	505,829	3,836,618
--	--	--	549,212	696,890
19,971	--	--	--	19,971
--	--	--	141,084	248,994
--	--	--	93,998	101,038
<u>19,971</u>	<u>58,266</u>	<u>--</u>	<u>1,908,763</u>	<u>9,727,795</u>
234,561	(46,119)	39,041	(532,111)	503,641
--	1,000,000	--	--	1,000,000
--	--	--	--	100
--	--	--	493,777	1,203,123
--	--	--	1,223	1,223
--	--	--	(44,743)	(1,203,123)
--	--	--	--	(76,923)
<u>--</u>	<u>1,000,000</u>	<u>--</u>	<u>450,257</u>	<u>924,400</u>
234,561	953,881	39,041	(81,854)	1,428,041
918,062	--	473,531	620,019	3,289,448
--	--	--	547	547
<u>\$ 1,152,623</u>	<u>\$ 953,881</u>	<u>\$ 512,572</u>	<u>\$ 538,712</u>	<u>\$ 4,718,036</u>

LELAND SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 1,428,041
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	157,215
The depreciation of capital assets used in governmental activities is not reported in the funds.	(195,040)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	120,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	95,426
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	33,568
(Increase) decrease in accrued interest from beginning of period to end of period	3,280
Long term debt proceeds are reported in the funds but not in SOA	(1,000,000)
Compensated absences reported as amount earned in SOA but as the amount paid in the funds.	7,701
Change in inventory is adjustment to FB in funds but affects non-instructional expense in the SOA	547
Rounding difference	(1)
	<u>650,737</u>
Change in net assets of governmental activities - statement of activities	\$ <u>650,737</u>

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2006

	Agency Fund
	Payroll Clearing Fund
ASSETS AND OTHER DEBITS	
Assets:	
<i>Cash and other deposits</i>	\$ 361,358
Total Assets and Other Debits	\$ 361,358
LIABILITIES, EQUITY AND OTHER CREDITS	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 361,358
Total Liabilities	\$ 361,358

The accompanying notes are an integral part of this statement.

Leland School District

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

Leland School District

Notes to the 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 to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Leland School District

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

with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. 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 Fund - This fund is used to account for financial resources of the district's Title I Program.

Leland School District

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

Title II A Fund - This fund is used to account for the revenues and expenditures associated with the Improving Teacher Quality Grant Fund.

IDEA Part B PL 94-142 Grant Fund - This is a Special Revenue Fund that is used to insure proper disbursement of, and accounting for, EHA Part B revenues received by the district.

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

2005 QZAB Capital Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

Leland School District

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

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications 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 consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

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

Leland School District

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

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

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

I. Capital Assets.

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital 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.

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

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

J. Long-term liabilities.

Leland School District

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

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 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, construction 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

Leland School District

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

of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

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

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

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

Restricted for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

M.. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

Leland School District

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

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

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report 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 Leland 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 districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the district's deposits with financial institutions reported in governmental funds and fiduciary funds was \$3,919,290, and \$361,358 respectively. The

Leland School District

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

carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents \$3,902,134 and Restricted Assets \$17,156. The Restricted Assets represents the cash balance of the 16th Section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that supports the district's programs. The bank balance was \$4,640,435.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi state Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$4,640,435 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$488,863.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 73,332	0
Title I Fund	0	41,218
Title II Fund	0	11,215
IDEA Part B Grant Fund	0	12,328
Other Governmental Funds	<u>0</u>	<u>8,571</u>
Total Funds	<u>\$ 73,332</u>	<u>73,332</u>

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

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General fund	\$ 709,346	1,141,942
Title I Fund	0	14,938

Leland School District

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

	<u>Transfer In</u>	<u>Transfer Out</u>
IDEA Part B Grant Fund	0	1,500
Other Governmental Funds	<u>493,777</u>	<u>44,743</u>
Total Funds	<u>\$ 1,203,123</u>	<u>1,203,123</u>

The purpose of the transfers was to provide operating capital, to provide for indirect costs and to transfer interest to operating account. All transfers were routine and consistent with the fund making the transfer.

(5) Capital Assets.

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

	Balance 7-1-2005	Addition	Retirement	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 42,864				42,864
Total non-depreciable capital assets	<u>42,864</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>42,864</u>
<u>Depreciable capital assets:</u>					
Buildings	2,826,380				2,826,380
Building Improvements	1,859,454				1,859,454
Improvements other than buildings	0	29,890			29,890
Mobile equipment	428,491		250		428,241
Furniture and equipment	737,343	127,325			864,668
Leased property under capital leases	245,380				245,380
Total depreciable capital assets	<u>6,097,048</u>	<u>157,215</u>	<u>250</u>	<u>0</u>	<u>6,254,013</u>
<u>Less accumulated depreciation for :</u>					
Buildings	2,041,957	16,843			2,058,800
Building Improvements	560,987	72,760			633,747
Improvements other than buildings	0	1,196			1,196
Mobile equipment	365,901	10,728	250		376,379
Furniture and equipment	578,391	58,810			637,201
Leased property under capital leases	84,208	34,703			118,911
Total accumulated depreciation	<u>3,631,444</u>	<u>195,040</u>	<u>250</u>	<u>0</u>	<u>3,826,234</u>
Total depreciable capital assets, net	2,465,604	(37,825)	0	0	2,427,779
Governmental activities capital assets, net	<u>\$ 2,508,468</u>	<u>(37,825)</u>	<u>0</u>	<u>0</u>	<u>2,470,643</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 136,528
Support services	39,008
Non-Instructional	<u>19,504</u>
Total depreciation expense	<u>\$ 195,040</u>

Leland School District

Notes to the 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:

	Balance 7-1-2005	Additions	Reductions	Balance 6-30-2006	Amounts due in one year
A. Limited obligations bonds payable	2,045,000	0	120,000	1,925,000	125,000
B. Obligations under capital leases	198,323	0	95,426	102,897	50,569
C. QZAB payable	1,000,000	1,000,000	0	2,000,000	0
D. Other loans payable	229,068	0	33,568	195,500	33,556
E. Compensated absences payable	<u>72,060</u>	<u>0</u>	<u>7,701</u>	<u>64,359</u>	<u>3,218</u>
Total	<u>3,773,519</u>	<u>1,000,000</u>	<u>256,695</u>	<u>4,287,756</u>	<u>212,343</u>

A. Limited Obligations Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1998 State Aid Capital Improvement	var.	01-01-98	01-01-18	\$ <u>2,555,000</u>	<u>1,925,000</u>
Total				\$ <u>2,555,000</u>	<u>1,925,000</u>

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 125,000	88,838	213,838
2008	130,000	83,838	213,838
2009	135,000	77,618	212,618
2010	140,000	71,543	211,543
2011	150,000	65,243	215,243
2012-2016	845,000	217,658	1,062,658
2016-2020	<u>400,000</u>	<u>28,738</u>	<u>428,738</u>
Total	\$1,925,000	633,476	2,558,476

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-

Leland School District

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

7, Miss. Code Ann (1972). The state aid capital improvement bonds are not included in the computation of debt limit percentage. This debt will be retired from the Interim Capital Expenditures Fund.

B. Obligations under capital leases.

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

1. Equipment
2. Lighting in classrooms.

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

1. The school district may have the equipment replaced if the equipment is damaged, if the school district is not at fault.
2. The school district has the option to purchase the equipment at the end of the lease term (including Renewal Terms), upon payment in full Rental Payment and other amounts payable by Lessee.
3. The school district has the option to purchase the equipment at the end of the original term or any renewal term upon payment by Lessee of the then applicable purchase price.

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 69,751	3,118	72,869
2008	<u>33,146</u>	<u>1,358</u>	<u>34,504</u>
Total	\$102,897	4,476	107,373

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

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

C. Qualified Zone Academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies

Leland School District

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

as Qualified Zone Academy bonds.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Series 2005	0%	11-17-05	11-17-15	\$ 1,000,000	1,000,000
Series 2001	0%	06-26-01	06-25-14	\$ <u>1,000,000</u>	<u>1,000,000</u>
Total				\$ <u>2,000,000</u>	<u>2,000,000</u>

This debt will be retired from the District Maintenance Fund.

D. Other loans payable.

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

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1994 EPA Loan	N/A	05-31-94	05-31-08	\$ 74,138	9,952
1995 EPA Loan	N/A	05-31-95	11-30-12	<u>514,231</u>	<u>185,548</u>
Total				\$ <u>588,369</u>	<u>195,500</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>
2007	\$ 33,556
2008	33,508
2009	28,556
2010	28,556
2011	28,556
2012-2013	<u>42,768</u>
Total	\$ <u>195,500</u>

This debt will be retired from the general fund.

E. Compensated absences payable.

Leland School District

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

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

(7) Defined Benefit Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2006 was 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 \$553,132, \$494,402, and \$487,570, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising 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		Amount
June 30		
2007	\$	205,666
2008		203,916

Leland School District

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

2009	198,341
2010	114,791
2011	111,786
2012-2016	23,704
2017-2021	<u>14,222</u>
Total	\$ <u>872,426</u>

(9) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 Workman's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson, Mississippi. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). Because none of the school districts which share townships with Leland School District nor the Leland School District itself files lists of children as required, no division of sixteenth section revenues has been accrued as

Leland School District

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

a receivable or payable, as the case may be.

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

(11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with First Union National Bank, and Trustmark National Bank has entered into such an arrangement dated June 26, 2001, and November 15, 2005, respectively.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before June 25th and November 1st each year starting in 2002 and 2006 and ending in 2014, and 2015, respectively. The amount accumulated in the sinking fund at the end of the period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2007	\$ 158,423
2008	158,423
2009	158,423
2010	158,423
2011	158,423
2012-2014	<u>638,269</u>
Total	\$1,430,384

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,789,015	1,830,359	1,825,214	41,344	(5,145)
State sources	5,044,619	4,989,027	4,976,149	(55,592)	(12,878)
Federal sources	269,613	522,813	514,703	253,200	(8,110)
Total Revenues	7,103,247	7,342,199	7,316,066	238,952	(26,133)
Expenditures:					
Instruction	3,740,822	3,770,708	3,610,904	(29,886)	159,804
Support services	2,665,037	2,937,590	2,763,181	(272,553)	174,409
Noninstructional services	50,380	52,956	35,200	(2,576)	17,756
Debt Service					
Principal	116,679	109,812	107,910	6,867	1,902
Interest	0	6,867	7,040	(6,867)	(173)
Total Expenditures	6,572,918	6,877,933	6,524,235	(305,015)	353,698
Excess (Deficiency) of Revenues Over Expenditures	530,329	464,266	791,831	(66,063)	327,565
Other Financing Sources (Uses):					
Sale of Transportation Equipment		345	100	345	(245)
Transfers In	742,941	775,847	709,346	32,906	(66,501)
Transfers Out	(1,197,146)	(1,176,906)	(1,141,942)	20,240	34,964
Other financing uses	(76,923)	(76,923)	(76,923)	0	0
Total Other Financing Sources (Uses)	(531,128)	(477,637)	(509,419)	53,491	(31,782)
Net Change in Fund Balances	(799)	(13,371)	282,412	(12,572)	295,783
Fund Balances:					
July 1, 2005			1,277,836	0	1,277,836
Prior period adjustments					
July 1, 2005, as restated	0	0	1,277,836	0	1,277,836
June 30, 2006	\$ (799)	(13,371)	1,560,248	(12,572)	1,573,619

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

LELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Fund
 For the Year Ended June 30, 2006

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 886,678	758,535	758,535	(128,143)	0
Total Revenues	886,678	758,535	758,535	(128,143)	0
Expenditures:					
Instruction	300,350	262,958	262,959	37,392	(1)
Support services	445,182	368,161	368,160	77,021	1
Non-Instructional	120,407	112,478	112,478	7,929	0
Total Expenditures	865,939	743,597	743,597	122,342	0
Excess (Deficiency) of Revenues Over Expenditures	20,739	14,938	14,938	(5,801)	0
Other Financing Sources (Uses):					
Transfers In			0	0	0
Transfers Out	(20,740)	(14,938)	(14,938)	5,802	0
Total Other Financing Sources (Uses)	(20,740)	(14,938)	(14,938)	5,802	0
Net Change in Fund Balances	(1)	0	0	0	0
Fund Balances:					
July 1, 2005		0	0	0	0
Prior period adjustments (Note)					
July 1, 2005, as restated	0	0	0	0	0
June 30, 2006	\$ (1)	0	0	0	0

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

LELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title II A Fund
 For the Year Ended June 30, 2006

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal Sources	\$ 191,899	177,442	177,442	(14,457)	0
Total Revenues	191,899	177,442	177,442	(14,457)	0
Expenditures:					
Instruction	181,995	174,613	174,614	7,382	(1)
Support Services	9,904	2,829	2,828	7,075	1
Total Expenditures	191,899	177,442	177,442	14,457	0
Excess (Deficiency) of Revenues Over Expenditures	0	0	0	0	0
Other Financing Sources (Uses):					
Other financing sources	0	0	0	0	0
Other financing uses	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2005				0	0
Prior period adjustments (Note)					
July 1, 2005, as restated	0	0	0	0	0
June 30, 2006	\$ 0	0	0	0	0

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

LELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 IDEA Part B PL 94-142 Grant Fund
 For the Year Ended June 30, 2006

Exhibit 4

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 361,378	297,021	297,021	(64,357)	0
Total Revenues	<u>361,378</u>	<u>297,021</u>	<u>297,021</u>	<u>(64,357)</u>	<u>0</u>
Expenditures:					
Instruction	136,283	128,479	128,750	7,804	(271)
Support Services	222,445	169,772	166,771	52,673	3,001
Total Expenditures	<u>358,728</u>	<u>298,251</u>	<u>295,521</u>	<u>60,477</u>	<u>2,730</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,650</u>	<u>(1,230)</u>	<u>1,500</u>	<u>(3,880)</u>	<u>2,730</u>
Other Financing Sources (Uses):					
Transfers Out	(2,650)	(1,500)	(1,500)	1,150	0
Total Other Financing Sources (Uses)	<u>(2,650)</u>	<u>(1,500)</u>	<u>(1,500)</u>	<u>1,150</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(2,730)</u>	<u>0</u>	<u>(2,730)</u>	<u>(2,730)</u>
Fund Balances:					
July 1, 2005	0	0	0	0	0
Prior period adjustments					
July 1, 2005, as restated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in reserve for inventory	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Residual equity transfer in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 0</u>	<u>(2,730)</u>	<u>0</u>	<u>(2,730)</u>	<u>2,730</u>

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

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

Exhibit 5

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 233,575	254,532	254,532	20,957	0
Total Revenues	<u>233,575</u>	<u>254,532</u>	<u>254,532</u>	<u>20,957</u>	<u>0</u>
Expenditures:					
Sixteenth Section	22,175	19,971	19,971	2,204	0
Total Expenditures	<u>22,175</u>	<u>19,971</u>	<u>19,971</u>	<u>2,204</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>211,400</u>	<u>234,561</u>	<u>234,561</u>	<u>23,161</u>	<u>0</u>
Other Financing Sources (Uses):					
Transfers Out	(50,000)	0	0	50,000	0
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>0</u>	<u>0</u>	<u>50,000</u>	<u>0</u>
Net Change in Fund Balances	<u>161,400</u>	<u>234,561</u>	<u>234,561</u>	<u>73,161</u>	<u>0</u>
Fund Balances:					
July 1, 2005	0	0	918,062	0	918,062
Prior period adjustments					
July 1, 2005, as restated	<u>0</u>	<u>0</u>	<u>918,062</u>	<u>0</u>	<u>918,062</u>
Increase (Decrease) in reserve for inventory	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Residual equity transfer in (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 161,400</u>	<u>234,561</u>	<u>1,152,623</u>	<u>73,161</u>	<u>918,062</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Leland School District

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

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

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$28,306
Child Nutrition Cluster:		
School Breakfast Program	10.553	159,759
National School Lunch Program	10.555	394,753
Summer Food Service Program for Children	10.559	<u>12,248</u>
Total child nutrition cluster		<u>566,760</u>
Total passed-through the MDE		<u>595,066</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		595,066
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	247,753
Total Federal Communication Commission		<u>247,753</u>
U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	758,535
Migrant Education - Basic State Grant Program	84.011	1,708
Vocational Education - Basic Grant to States	84.048	20,008
Safe and Drug Free Schools and Communities - State Grants	84.186	16,980
State Grants for Innovative Programs	84.298	4,346
Education Technology State Grants	84.318	81,289
Rural Education	84.358	20,384
Improving Teacher Quality - State Grants	84.367	177,442
Special Education Cluster:		
Special Education - Grants to States	84.027	297,021
Special Education - Preschool Grants	84.173	<u>14,707</u>
Total special education cluster		<u>311,728</u>
Total passed-through the MDE		<u>1,392,420</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		1,392,420
TOTAL FOR ALL FEDERAL AWARDS		<u>\$2,235,239</u>

Notes to Schedule

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

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

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 7,217,033	5,627,279	445,326	444,414	700,014
Other	2,510,762	1,063,805	141,605	4,633	1,300,719
Total	\$ 9,727,795	6,691,084	586,931	449,047	2,000,733
Total number of students *	1,133				
Cost per student	\$ 8,586	5,906	518	396	1,766

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); Support Services - Business (2500s)

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

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

includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

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

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

Superintendent and School Board
Leland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District as of and for the year ended June 30, 2006, and have issued my report thereon dated November 1, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

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



J.E. Fortenberry, III, PC
November 1, 2006

Certified Public Accountant

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

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

Superintendent and School Board
Leland School District

Compliance

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

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

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

Internal Control Over Compliance

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

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a

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

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



J.E. Fortenberry, III, PC
November 1, 2006

Certified Public Accountant

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

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

Superintendent and School Board
Leland School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leland School District as of and for the year ended June 30, 2006, which collectively comprise Leland School District's basic financial statements and have issued my report thereon dated November 1, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

The results of 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 \$17,632.17 of classroom supply funds carried over from previous years.

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

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



J.E. Fortenberry, III, PC
November 1, 2006

Certified Public Accountant

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

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

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: unqualified.
2. Material noncompliance relating to the financial statements? No.
3. Internal control over financial reporting:
 - a. Material weaknesses identified? No.
 - b. Reportable conditions identified that are not considered to be material weaknesses? No.

Federal Awards:

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

Section 2: Findings Relating to the Financial Statements

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

Section 3: Findings and Questioned Costs for Federal Awards

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

