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Leland School District
GASB 34 Financial Statements
June 30, 2007

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

FINANCIAL AUDIT REPORT

**Leland School District
TABLE OF CONTENTS**

PAGE #

FINANCIAL AUDIT REPORT

| | |
|--|---|
| Independent Auditor's Report on the Basic Financial Statements and Supplemental Information | 4 |
| Management's Discussion and Analysis | 7 |

FINANCIAL STATEMENTS

| | |
|--|----|
| Exhibit A-Statement of Net Assets | 17 |
| Exhibit B-Statement of Activities | 18 |
| Exhibit C-Balance Sheet, Governmental Funds | 20 |
| Exhibit C-1-Reconciliation of the Governmental Funds Balance Sheet | 22 |
| Exhibit D-Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds | 24 |
| Exhibit D-1-Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 26 |
| Exhibit E-Statement of Fiduciary Net Assets | 27 |
| Notes to the Financial Statements | 29 |

REQUIRED SUPPLEMENTAL INFORMATION

| | |
|---|----|
| Budgetary Comparison Schedules | 47 |
| Notes to the Required Supplementary Information | 52 |

SUPPLEMENTAL INFORMATION

| | |
|---|----|
| Schedule 1 - Schedule of Expenditures of Federal Awards | 54 |
| Schedule 2 - Schedule of Instructional, Administrative, and Other Expenditures- Governmental Funds. | 55 |

INTERNAL CONTROL AND COMPLIANCE REPORTS

| | |
|--|----|
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with "Government Auditing Standards" . | 56 |
| 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 | 58 |
| Independent Auditor's Report on Compliance with State Laws and Regulations | 60 |

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

| | |
|---|----|
| Schedule of Findings and Questioned Costs | 62 |
|---|----|

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

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTAL 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, 2007, 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, 2007, 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 January 25, 2008, 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 grant agreements and other matters. 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my 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
January 25, 2008

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

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, 2007. 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 \$649,547, which represents more than a 23% increase from fiscal year 2006.
- General revenues account for \$7,666,561 in revenue, or 75% of all revenues. This amount was slightly higher when compared to the general revenues reported for the year 2006, which consisted of \$7,412,388 in general revenue, but remained the same percentage-wise. Program specific revenues in the form of charges for services and grants and contributions for this year accounted for \$2,605,243 or 25% of total revenues compared with \$2,820,371 in 2006.
- The District had \$9,622,257 in expenses, amount that increased when compared with the \$9,582,022 in expenses for the prior year; only \$2,605,243 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,666,561 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,182,954 in revenues and \$6,159,478 in expenditures. In 2006 the General Fund had \$7,316,066 in revenues and \$6,524,235 in expenditures. The General Fund's fund balance increased \$566,129 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$120,256.
- Long-term debt decreased by \$211,244.

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 29-46 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 47-52 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 \$3,502,943 as of June 30, 2007.

The District's investment in capital assets, net of related debt (14%) 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.

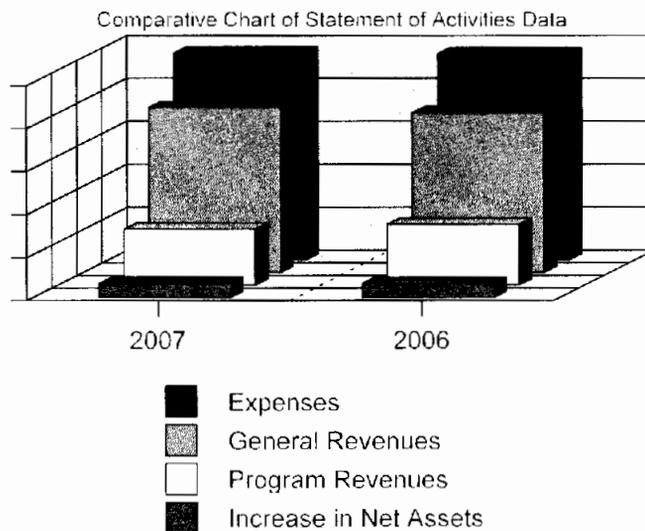
The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2007 and 2006.

| | 2007 | 2006 | Percentage Change |
|--|---------------------|------------------|------------------------------|
| Assets | | | |
| Current assets | \$ 5,373,222 | 4,745,771 | 13% |
| Capital assets, net | <u>2,350,387</u> | <u>2,470,643</u> | -5% |
| Total assets | <u>7,723,609</u> | <u>7,216,414</u> | 7% |
| Liabilities | | | |
| Current liabilities | 144,154 | 73,629 | 96% |
| Long-term liabilities | <u>4,076,512</u> | <u>4,287,756</u> | -5% |
| Total liabilities | <u>4,220,666</u> | <u>4,361,385</u> | -3% |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 498,059 | 442,746 | 12% |
| Restricted | 3,178,320 | 3,123,768 | 2% |
| Unrestricted | <u>(173,436)</u> | <u>(711,485)</u> | -76% |
| Total Net Assets | <u>\$ 3,502,943</u> | <u>2,855,029</u> | 23% |

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$10,271,804. The total cost of all programs and services was \$9,622,257. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007.

| | 2007 | 2006 | Percentage Change |
|--|-------------------|-------------------|----------------------|
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for services | \$ 134,446 | 101,641 | 32% |
| Operating Grants and Contributions | 2,435,336 | 2,682,111 | -9% |
| Capital Grants and Contributions | 35,461 | 36,619 | -3% |
| Total Program Revenues | 2,605,243 | 2,820,371 | -8% |
| <u>General Revenues</u> | | | |
| Property Taxes | 1,587,722 | 1,663,122 | -5% |
| Unrestricted Grants and Contributions | 5,439,499 | 5,351,381 | 2% |
| Unrestricted Investment Earnings | 156,357 | 131,676 | 19% |
| Sixteenth Section Sources | 281,382 | 255,271 | 10% |
| Other | 201,601 | 10,938 | 1743% |
| Total General Revenues | 7,666,561 | 7,412,388 | 3% |
| Total revenues | 10,271,804 | 10,232,759 | 0% |
| Expenses | | | |
| Instruction | 4,979,158 | 4,802,374 | 4% |
| Support services | 3,618,887 | 3,875,626 | -7% |
| Non-instructional | 752,779 | 715,848 | 5% |
| Sixteenth section | 26,281 | 19,971 | 32% |
| Interest on long-term liabilities | 245,152 | 168,203 | 46% |
| Total expenses | 9,622,257 | 9,582,022 | 0% |
| Increase (Decrease) in net assets | 649,547 | 650,737 | 0% |
| Net Assets, July 1 | 2,855,029 | 2,204,292 | 30% |
| Prior Period Adjustment | (1,633) | - | 100% |
| Net Assets, June 30 | \$ 3,502,943 | 2,855,029 | 23% |

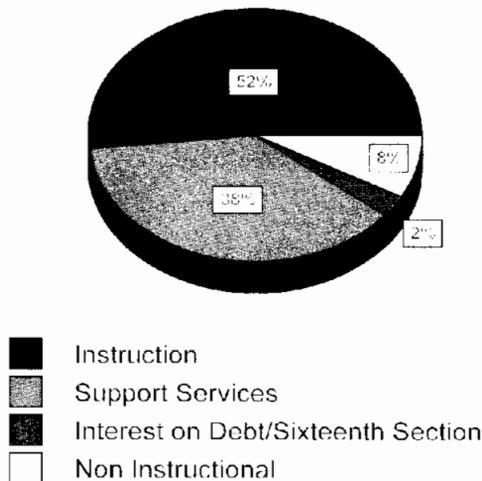


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated 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.

| | 2007 | 2006 | 2007 | 2006 |
|-----------------------------------|--------------|-----------|--------------------------|--------------------------|
| | Expenses | Expenses | Net (Expense) Revenue | Net (Expense) Revenue |
| Instruction | \$ 4,979,158 | 4,802,374 | (4,271,683) | (4,136,256) |
| Support Services | 3,618,887 | 3,875,626 | (2,388,825) | (2,374,762) |
| Non-Instructional | 752,779 | 715,848 | (85,073) | (62,459) |
| Sixteenth Section | 26,281 | 19,971 | (26,281) | (19,971) |
| Interest on Long-Term Liabilities | 245,152 | 168,203 | (245,152) | (168,203) |
| | \$ 9,622,257 | 9,582,022 | (7,017,014) | (6,761,651) |

- Net cost of governmental activities (\$7,017,014), was financed by general revenue, which is made up of primarily property taxes (\$1,587,722) and state revenue (\$5,307,076).
- Sixteenth section sources accounted for \$281,382 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 \$5,277,593, an increase of \$556,750 due primarily to a general decrease in expenses. \$5,204,073 or 99% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$73,520 or 1% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$566,129, a result of a decrease in instructional and support services resources expended during the year.

The increase in the Sixteenth Section Interest Fund was \$260,574 due to an increase in sixteenth section revenue received. The Title I fund balance remained the same and the decrease in the QZAB Capital Fund was \$276,387. The fund balance of Other Governmental Funds showed an increase of \$6,434 due primarily to an increase in local and state revenues.

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 07 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, 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, 2007, the District's total capital assets were \$6,365,487, including land, school buildings, buses, other school vehicles, furniture and equipment. This amount represents an increase of \$68,610 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$4,015,100 and total depreciation expense for the year was \$196,286, resulting in total net capital assets of \$2,350,387. Additional information of the District's capital assets can be found in Note 5 on page 39 of this report.

| | Capital Assets, Net of Depreciation | | Percentage Change |
|--------------------------------------|-------------------------------------|-----------|-------------------|
| | 2007 | 2006 | |
| Land | \$ 42,864 | 42,864 | 0% |
| Buildings | 744,872 | 767,580 | -3% |
| Building improvements | 1,157,195 | 1,225,707 | -6% |
| Improvements other than buildings | 27,498 | 28,694 | -4% |
| Mobile equipment | 47,731 | 51,862 | -8% |
| Furniture and equipment | 238,462 | 227,467 | 5% |
| Leased property under capital leases | 91,765 | 126,469 | -27% |
| | \$ 2,350,387 | 2,470,643 | -5% |

Debt Administration. At June 30, 2007, the District had \$4,076,512 in long-term debt outstanding, of which \$215,836 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 40 of this report.

| | | | Percentage Change |
|----------------------------------|--------------|-----------|-------------------|
| | 2007 | 2006 | |
| Limited obligation bonds payable | \$ 1,800,000 | 1,925,000 | -6% |
| Obligation under capital leases | 52,328 | 102,897 | -49% |
| QZA bonds payable | 2,000,000 | 2,000,000 | 0% |
| Other loans payable | 161,932 | 195,500 | -17% |
| Compensated absences payable | 62,252 | 64,359 | -3% |
| | \$ 4,076,512 | 4,287,756 | -5% |

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, 2007

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| <i>Cash and cash equivalents</i> | \$ 4,314,026 |
| <i>Cash with fiscal agents</i> | 244,704 |
| <i>Investments</i> | 423,446 |
| <i>Due from other governments</i> | 349,307 |
| <i>Inventories and prepaid items</i> | 24,583 |
| <i>Restricted assets</i> | 17,156 |
| <i>Capital assets, non depreciable:</i> | |
| <i>Land</i> | 42,864 |
| <i>Capital assets, net of accumulated depreciation:</i> | |
| <i>Buildings</i> | 744,872 |
| <i>Building Improvements</i> | 1,157,195 |
| <i>Improvements other than buildings</i> | 27,498 |
| <i>Mobile equipment</i> | 47,731 |
| <i>Furniture and equipment</i> | 238,462 |
| <i>Leased property under capital leases</i> | 91,765 |
| Total Assets | <u>7,723,609</u> |
| Liabilities | |
| <i>Accounts payable and accrued liabilities</i> | 81,430 |
| <i>Due to other governments</i> | 18,521 |
| <i>Deferred revenue</i> | 2,083 |
| <i>Interest payable on long-term liabilities</i> | 42,120 |
| Long-term liabilities (due within one year): | |
| <i>Capital related liabilities</i> | 182,328 |
| <i>Non-capital related liabilities</i> | 33,568 |
| Long-term liabilities (due beyond one year) | |
| <i>Capital related liabilities</i> | 1,670,000 |
| <i>Non-capital related liabilities</i> | 2,190,616 |
| Total Liabilities | <u>4,220,666</u> |
| NET ASSETS | |
| <i>Invested in Capital Assets, Net of Related Debt</i> | 498,059 |
| Restricted For: | |
| <i>School Based Activities</i> | 1,512,462 |
| <i>Debt Service</i> | 895,371 |
| <i>Capital Improvements</i> | 721,550 |
| <i>Forestry Improvements</i> | 3,135 |
| <i>Unemployment Benefits</i> | 28,646 |
| <i>Sixteenth Section</i> | 17,156 |
| <i>Unrestricted</i> | (173,436) |
| Total Net Assets | <u>\$ 3,502,943</u> |

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

| Functions/Programs | Expenses | Program Revenues | | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | | |
| Primary government | | | | | |
| Governmental Activities: | | | | | |
| <i>Instruction</i> | 4,979,158 | 134,446 | 537,568 | 35,461 | (4,271,683) |
| <i>Support services</i> | 3,618,887 | -- | 1,230,062 | -- | (2,388,825) |
| <i>Noninstructional services</i> | 752,779 | -- | 667,706 | -- | (85,073) |
| <i>Sixteenth section</i> | 26,281 | -- | -- | -- | (26,281) |
| <i>Interest on long-term liabilities</i> | 245,152 | -- | -- | -- | (245,152) |
| Total Primary Government | <u>\$ 9,622,257</u> | <u>\$ 134,446</u> | <u>\$ 2,435,336</u> | <u>\$ 35,461</u> | <u>(7,017,014)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| <i>General purpose levies</i> | | | | | 1,553,358 |
| <i>Debt purpose levies</i> | | | | | 54 |
| <i>Gaming</i> | | | | | 34,310 |
| Unrestricted grants and contributions: | | | | | |
| <i>State</i> | | | | | 5,307,076 |
| <i>Federal</i> | | | | | 132,423 |
| <i>Unrestricted investment earnings</i> | | | | | 156,357 |
| <i>Sixteenth section sources</i> | | | | | 281,382 |
| <i>Other</i> | | | | | 201,601 |
| Total general revenues | | | | | <u>7,668,561</u> |
| Change in Net Assets | | | | | 649,547 |
| Net Assets - Beginning | | | | | 2,855,029 |
| Prior Period Adjustment | | | | | (1,633) |
| Net Assets - Restated | | | | | <u>2,853,396</u> |
| Net Assets - Ending | | | | | <u>\$ 3,502,943</u> |

The accompanying notes are an integral part of this statement.

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LELAND SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

| | General Fund | Title I Fund | Sixteenth Section Interest |
|---|---------------------|------------------|----------------------------------|
| ASSETS | | | |
| <i>Cash and cash equivalents</i> | \$ 1,961,063 | \$ -- | \$ 1,427,383 |
| <i>Cash with fiscal agents</i> | -- | -- | -- |
| <i>Investments</i> | -- | -- | -- |
| <i>Due from other governments</i> | 128,651 | 73,129 | -- |
| <i>Other receivables, net</i> | -- | -- | 6,405 |
| <i>Due from other funds</i> | 67,488 | -- | -- |
| <i>Inventories and prepaid items</i> | -- | -- | -- |
| Total Assets | \$ 2,157,202 | \$ 73,129 | \$ 1,433,788 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| <i>Accounts payable and accrued liabilities</i> | \$ 30,568 | \$ 41,987 | \$ 18,591 |
| <i>Due to other funds</i> | 1,950 | 31,142 | -- |
| <i>Deferred revenue</i> | -- | -- | 2,000 |
| Total Liabilities | 32,518 | 73,129 | 20,591 |
| 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> | 2,124,684 | -- | -- |
| <i>Special Revenue funds</i> | -- | -- | 1,413,197 |
| <i>Capital projects funds</i> | -- | -- | -- |
| <i>Debt service funds</i> | -- | -- | -- |
| Total Fund Balances | 2,124,684 | -- | 1,413,197 |
| Total Liabilities and Fund Balances | \$ 2,157,202 | \$ 73,129 | \$ 1,433,788 |

| 2005 QZAB Capital Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------|--------------------------------|--------------------------------|
| \$ 677,494 | \$ 265,242 | \$ 4,331,182 |
| -- | 244,704 | 244,704 |
| -- | 423,445 | 423,446 |
| -- | 147,527 | 349,307 |
| -- | -- | 6,405 |
| -- | -- | 67,488 |
| -- | 24,583 | 24,583 |
| <u>\$ 677,494</u> | <u>\$ 1,105,502</u> | <u>\$ 5,447,115</u> |
| | | |
| \$ -- | \$ 8,805 | \$ 99,951 |
| -- | 34,396 | 67,488 |
| -- | 83 | 2,083 |
| <u>--</u> | <u>43,284</u> | <u>169,522</u> |
| | | |
| -- | 24,583 | 24,583 |
| -- | 28,646 | 28,646 |
| -- | 3,135 | 3,135 |
| -- | 17,156 | 17,156 |
| -- | -- | 2,124,684 |
| -- | 53,044 | 1,466,241 |
| 677,494 | 44,056 | 721,550 |
| -- | 891,598 | 891,598 |
| <u>677,494</u> | <u>452,713</u> | <u>5,277,593</u> |
| <u>\$ 677,494</u> | <u>\$ 495,997</u> | <u>\$ 5,447,115</u> |

LELAND SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

| | |
|--|---------------------|
| Total fund balances - governmental funds balance sheet | \$ 5,277,593 |
| Amounts reported for governmental activities in the statement of net assets ("SNA") are different because: | |
| Capital assets used in governmental activities are not reported in the funds. | 2,350,387 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | (3,670,000) |
| Payables for bond interest which are not due in the current period are not reported in the funds. | (42,120) |
| Payables for compensated absences not due in the current period are not reported in the funds. | (62,252) |
| Other long-term liabilities not due and payable in the current period are not reported in the funds. | (128,364) |
| Sixteenth section receivables are recognized in the funds but not in SNA | (6,405) |
| Liabilities due in one year. | <u>(215,896)</u> |
| Net assets of governmental activities - statement of net assets | <u>\$ 3,502,943</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, 2007

| | General Fund | Title I Fund | Sixteenth Section Interest |
|---|---------------------|-----------------|----------------------------------|
| Revenue: | | | |
| Local sources | \$ 1,846,421 | \$ -- | \$ -- |
| State sources | 5,125,959 | -- | -- |
| Federal sources | 210,574 | 736,767 | -- |
| Sixteenth section sources | -- | -- | 286,855 |
| Total revenues | <u>7,182,954</u> | <u>736,767</u> | <u>286,855</u> |
| Expenditures: | | | |
| Instruction | 3,538,924 | 238,811 | -- |
| Support services | 2,489,474 | 395,154 | -- |
| Noninstructional services | 43,825 | 84,198 | -- |
| Sixteenth section | -- | -- | 26,281 |
| Debt service: | | | |
| Principal | 84,137 | -- | -- |
| Interest | 3,118 | -- | -- |
| Total expenditures | <u>6,159,478</u> | <u>718,163</u> | <u>26,281</u> |
| Excess (deficiency) of revenues (over) expenditures | 1,023,476 | 18,604 | 260,574 |
| Other financing sources (uses): | | | |
| Sale of other property | -- | -- | -- |
| Operating transfers in | -- | -- | -- |
| Other financing sources | -- | -- | -- |
| Operating transfers out | (457,347) | (18,604) | -- |
| Other financing uses | -- | -- | -- |
| Total other financing sources (uses) | <u>(457,347)</u> | <u>(18,604)</u> | <u>--</u> |
| Net change in fund balance | 566,129 | -- | 260,574 |
| Fund Balances: | | | |
| July 1, 2006 | 1,560,248 | -- | 1,152,623 |
| Prior period adjustments | (1,693) | -- | -- |
| July 1, 2006 as restated | 1,558,555 | -- | 1,152,623 |
| Increase (decrease) in reserve for inventory | -- | -- | -- |
| June 30, 2007 | <u>\$ 2,124,684</u> | <u>\$ --</u> | <u>\$ 1,413,197</u> |

The accompanying notes are an integral part of this statement.

| 2005 QZAB Capital Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------|--------------------------------|--------------------------------|
| \$ 22,319 | \$ 123,373 | \$ 1,992,113 |
| -- | 490,476 | 5,616,435 |
| -- | 1,276,393 | 2,223,734 |
| -- | 932 | 287,787 |
| <u>22,319</u> | <u>1,870,241</u> | <u>10,120,069</u> |
| 298,706 | 842,384 | 4,918,825 |
| -- | 695,252 | 3,579,880 |
| -- | 609,492 | 737,515 |
| -- | -- | 26,281 |
| -- | 125,000 | 209,137 |
| -- | 88,838 | 91,956 |
| <u>298,706</u> | <u>2,360,966</u> | <u>9,563,594</u> |
| (276,387) | (469,792) | 556,475 |
| -- | 1,198 | 1,198 |
| -- | 529,548 | 529,548 |
| -- | 156,941 | 156,941 |
| -- | (53,597) | (529,548) |
| -- | (157,864) | (157,864) |
| <u>--</u> | <u>476,226</u> | <u>275</u> |
| (276,387) | 6,434 | 556,750 |
| 953,881 | 1,051,284 | 4,718,036 |
| -- | 60 | (1,633) |
| <u>953,881</u> | <u>1,051,344</u> | <u>4,716,403</u> |
| -- | 4,440 | 4,440 |
| <u>\$ 677,494</u> | <u>\$ 1,062,218</u> | <u>\$ 5,277,593</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, 2007

| | | |
|--|----|----------------|
| Net change in fund balances - total governmental funds | \$ | 556,750 |
| Amounts reported for governmental activities in the statement of activities ("SOA") are different because: | | |
| Capital outlays are not reported as expenses in the SOA. | | 76,105 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | | (196,286) |
| The gain or loss on the sale of capital assets is not reported in the funds. | | (75) |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | | 125,000 |
| Repayment of capital lease principal is expenditure in funds but not an expense in the SOA. | | 50,569 |
| 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 | | 3,773 |
| Sixteenth section receivables | | (6,405) |
| Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA | | 4,440 |
| Compensated absences reported as amount earned in the SOA but as amount paid in the funds. | | 2,107 |
| Rounding difference | | 1 |
| | | <hr/> |
| Change in net assets of governmental activities - statement of activities | \$ | <u>649,547</u> |

The accompanying notes are an integral part of this statement.

LELAND SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

| | Agency Fund |
|---|-----------------------------|
| | Payroll Clearing Fund |
| ASSETS AND OTHER DEBITS | |
| Assets: | |
| <i>Cash and other deposits</i> | \$ 360,624 |
| Total Assets and Other Debits | \$ 360,624 |
| LIABILITIES, EQUITY AND OTHER CREDITS | |
| Liabilities: | |
| <i>Accounts payable and accrued liabilities</i> | \$ 360,624 |
| Total Liabilities | \$ 360,624 |

The accompanying notes are an integral part of this statement.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

(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, 2007

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 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, 2007

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.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications 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, 2003* issued by the U.S.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

Department of Education.

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported as reservations of fund balances since they do not constitute expenditures or liabilities.

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 original maturities of three (3) 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 three (3) months when acquired. Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

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.

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.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

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 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

Leland School District

Notes to the Financial Statements For the Year Ended June 30, 2007

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.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

M.. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

Leland School District

Notes to the Financial Statements For the Year Ended June 30, 2007

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) 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.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,331,182 and \$360,524 respectively. The carrying amount of deposits reported in the government wide statements was: cash and cash equivalents \$4,314,026 and restricted assets \$17,156. The restricted assets of \$17,156 represent the investment and cash balance of the Sixteenth Section Principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the districts's programs. The bank balance was \$4,997,640.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover deposits or collateral securities tat are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$4,997,640 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 \$244,704.

Investments.

As of June 30, 2007, the district had the following investments in the investment pool.

| <u>Investment Type</u> | <u>Maturities (in years)</u> | <u>Fair Value</u> | <u>Rating</u> |
|---------------------------|----------------------------------|-------------------|---------------|
| US Government Issues- | | | |
| Fed. Home Ln. Mtg. Corp. | Less than 1 | \$ 43,796 | N/A |
| Fed. Ntl. Mtg. Assoc. | 4 | 31,776 | AAA |
| Fed. Ntl. Mtg. Assoc. | 6 | 56,325 | N/A |
| Fed. Ntl. Mtg. Assoc. | Less than 1 | 106,953 | N/A |
| U.S. Treas. Sec. Stripped | Less than 1 | 72,862 | AAA |
| U.S. Treas. Sec. Stripped | Less than 1 | 28,578 | AAA |
| Fed. Home Ln. Mtg. Corp. | Less than 1 | <u>83,156</u> | N/A |
| Total Investments | | <u>\$ 423,446</u> | |

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. Of the district's investments \$423,446 of underlying securities are held by the investment's counterparty, not in the name of the district.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2007, the district had the following investments:

| <u>Issuer</u> | <u>Fair Value</u> | <u>% of Total Investments</u> |
|---------------------------|-------------------|-------------------------------|
| Fed. Home Ln. Mtg. Corp. | \$ 43,796 | 10 |
| Fed. Ntl. Mtg. Assoc. | 31,776 | 7 |
| Fed. Ntl. Mtg. Assoc. | 56,325 | 13 |
| Fed. Ntl. Mtg. Assoc. | 106,953 | 25 |
| U.S. Treas. Sec. Stripped | 72,862 | 17 |
| U.S. Treas. Sec. Stripped | 28,578 | 8 |
| Fed. Home Ln. Mtg. Corp. | <u>83,156</u> | 20 |
| | <u>\$ 423,446</u> | |

(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 | \$ 67,488 | 1,950 |
| Title I Fund | 0 | 31,142 |
| Other Governmental Funds | <u>0</u> | <u>34,396</u> |
| Total Funds | <u>\$ 67,488</u> | <u>67,488</u> |

Leland School District

Notes to the Financial Statements For the Year Ended June 30, 2007

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 | \$ | 457,347 |
| Title I Fund | 0 | 18,604 |
| Other Governmental Funds | <u>529,548</u> | <u>53,597</u> |
| Total Funds | <u>\$ 529,548</u> | <u>529,548</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 7-1-2006 | Addition | Retirement | Adjustments | Balance 6-30-2007 |
|---|---------------------|------------------|--------------|-------------|----------------------|
| <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 | 29,890 | | | | 29,890 |
| Mobile equipment | 428,241 | 250 | | | 428,491 |
| Furniture and equipment | 864,668 | 75,855 | 7,495 | | 933,028 |
| Leased property under capital leases | 245,380 | | | | 245,380 |
| Total depreciable capital assets | <u>6,254,013</u> | <u>76,105</u> | <u>7,495</u> | <u>0</u> | <u>6,322,623</u> |
| <u>Less accumulated depreciation for :</u> | | | | | |
| Buildings | 2,058,800 | 22,708 | | | 2,081,508 |
| Building Improvements | 633,747 | 68,512 | | | 702,259 |
| Improvements other than buildings | 1,196 | 1,196 | | | 2,392 |
| Mobile equipment | 376,379 | 4,381 | | | 380,760 |
| Furniture and equipment | 637,201 | 64,785 | 7,420 | | 694,566 |
| Leased property under capital leases | 118,911 | 34,704 | | | 153,615 |
| Total accumulated depreciation | <u>3,826,234</u> | <u>196,286</u> | <u>7,420</u> | <u>0</u> | <u>4,015,100</u> |
| Total depreciable capital assets, net | 2,427,779 | (120,181) | 75 | 0 | 2,307,523 |
| Governmental activities capital assets, net | <u>\$ 2,470,643</u> | <u>(120,181)</u> | <u>75</u> | <u>0</u> | <u>2,350,387</u> |

Depreciation expense was charged to the following governmental functions:

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

| | |
|-----------------------------------|--------------------------|
| | <u>Amount</u> |
| Instruction | \$ 137,400 |
| Support services | 39,257 |
| Non-Instructional | <u>19,629</u> |
| Total depreciation expense | <u>\$ 196,286</u> |

(6) Long-term liabilities.

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

| | Balance 7-1-2006 | Additions | Reductions | Balance 6-30-2006 | Amounts due in one year |
|--------------------------------------|---------------------|-----------|----------------|----------------------|-------------------------------|
| A. Limited obligations bonds payable | \$ 1,925,000 | 0 | 125,000 | 1,800,000 | 130,000 |
| B. Obligations under capital leases | 102,897 | 0 | 50,569 | 52,328 | 52,328 |
| C. QZAB payable | 2,000,000 | 0 | 0 | 2,000,000 | 0 |
| D. Other loans payable | 195,500 | 0 | 33,568 | 161,932 | 33,508 |
| E. Compensated absences payable | <u>64,359</u> | <u>0</u> | <u>2,107</u> | <u>62,252</u> | <u>—</u> |
| Total | <u>4,287,756</u> | <u>0</u> | <u>211,244</u> | <u>4,076,512</u> | <u>215,836</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:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|---------------------------------------|--------------------------|-----------------------|--------------------------|----------------------------|-------------------------------|
| 1998 State Aid Capital Improvement | var. | 01-01-98 | 01-01-18 | \$ <u>2,555,000</u> | <u>1,800,000</u> |
| Total | | | | \$ <u>2,555,000</u> | <u>1,800,000</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> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|------------------|-----------------|--------------|
| 2008 | \$ 130,000 | 83,338 | 213,338 |
| 2009 | 135,000 | 77,618 | 212,618 |
| 2010 | 140,000 | 71,543 | 211,543 |
| 2011 | 150,000 | 65,243 | 215,243 |
| 2012 | 155,000 | 58,493 | 213,493 |

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

| | | | |
|-----------|----------------|--------------|----------------|
| 2013-2017 | 885,000 | 178,465 | 1,063,465 |
| 2018-2021 | <u>205,000</u> | <u>9,738</u> | <u>214,738</u> |
| Total | \$1,800,000 | 544,438 | 2,334,438 |

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

B. 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 | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|------------------|-----------------|---------------|
| <u>June 30,</u> 2008 | \$ <u>52,328</u> | <u>1,358</u> | <u>53,686</u> |
| Total | \$ 52,328 | 1,358 | 53,686 |

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.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

This debt will be retired from the 1120 Fund (District Maintenance).

C. Qualified Zone Academy bonds payable.

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

| <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> |

These debts will be retired from the 4091 Bond Repayment Fund and District Maintenance Fund, respectively.

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 | 5,000 |
| 1995 EPA Loan | N/A | 05-31-95 | 11-30-12 | <u>514,231</u> | <u>156,932</u> |
| Total | | | | \$ <u>588,369</u> | <u>161,932</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> |
|----------------------------|------------------|
| 2008 | \$ 33,508 |
| 2009 | 28,556 |
| 2010 | 28,556 |
| 2011 | 28,556 |
| 2012 | 28,556 |

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

| | |
|-------|-------------------|
| 2013 | <u>14,200</u> |
| Total | \$ <u>161,932</u> |

This debt will be retired from the general fund.

E. Compensated absences payable.

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

(7) Defined Benefit 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, 2007 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, 2007, 2006 and 2005 were \$563,702, \$553,132, and \$494,402, 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.

Leland School District

Notes to the Financial Statements For the Year Ended June 30, 2007

These future rental payments are from existing leases and do not anticipate renewals or new leases.

| Year Ending | | Amount |
|-------------|----|----------------|
| June 30 | | |
| 2008 | \$ | 203,916 |
| 2009 | | 198,341 |
| 2010 | | 114,791 |
| 2011 | | 111,786 |
| 2012 | | 4,741 |
| 2013-2015 | | 23,704 |
| 2016-2022 | | <u>9,482</u> |
| Total | \$ | <u>666,761</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 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. 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.

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

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 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> |
| 2008 | \$ 158,423 |
| 2009 | 158,423 |
| 2010 | 158,423 |

Leland School District

Notes to the Financial Statements
For the Year Ended June 30, 2007

| | |
|-----------|----------------|
| 2011 | 158,423 |
| 2012 | 158,423 |
| 2013-2014 | <u>479,846</u> |
| Total | \$1,271,961 |

REQUIRED SUPPLEMENTARY INFORMATION

LELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2007

Exhibit 1

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|---------------------|------------------|------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | | | | | |
| Revenues: | | | | | |
| Local sources | \$ 1,850,358 | 1,846,423 | 1,846,421 | (3,935) | (2) |
| State sources | 5,212,885 | 5,125,959 | 5,125,959 | (86,926) | 0 |
| Federal sources | 118,276 | 210,575 | 210,574 | 92,299 | (1) |
| Total Revenues | 7,181,519 | 7,182,957 | 7,182,954 | 1,438 | (3) |
| Expenditures: | | | | | |
| Instruction | 3,855,055 | 3,538,275 | 3,538,924 | 316,780 | (649) |
| Support services | 2,750,027 | 2,489,474 | 2,489,474 | 260,553 | 0 |
| Noninstructional services | 52,909 | 43,825 | 43,825 | 9,084 | 0 |
| Debt Service | | | | | |
| Principal | 84,137 | 84,137 | 84,137 | 0 | 0 |
| Interest | 3,118 | 3,118 | 3,118 | 0 | 0 |
| Other | | 650 | 0 | (650) | 650 |
| Total Expenditures | 6,745,246 | 6,159,479 | 6,159,478 | 585,767 | 1 |
| Excess (Deficiency) of Revenues Over Expenditures | 436,273 | 1,023,478 | 1,023,476 | 587,205 | (2) |
| Other Financing Sources (Uses): | | | | | |
| Sale of Transportation Equipment | | | | 0 | 0 |
| Transfers In | 826,002 | 765,514 | | (60,488) | (765,514) |
| Transfers Out | (1,185,352) | (1,145,938) | (380,424) | 39,414 | 765,514 |
| Other financing uses | (76,923) | (76,923) | (76,923) | 0 | 0 |
| Total Other Financing Sources (Uses) | (436,273) | (457,347) | (457,347) | (21,074) | 0 |
| Net Change in Fund Balances | 0 | 566,131 | 566,129 | 566,131 | (2) |
| Fund Balances: | | | | | |
| July 1, 2006 | 1,289,029 | 1,560,251 | 1,560,248 | 271,222 | (3) |
| Prior period adjustments | | (1,695) | (1,693) | (1,695) | 2 |
| July 1, 2006, as restated | 1,289,029 | 1,558,556 | 1,558,555 | 269,527 | (1) |
| June 30, 2007 | \$ 1,289,029 | 2,124,687 | 2,124,684 | 835,658 | (3) |

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, 2007

Exhibit 2

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|------------------|-----------------|------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | | | | | |
| Revenues: | | | | | |
| Federal sources | \$ 782,470 | 736,767 | 736,767 | (45,703) | 0 |
| Total Revenues | <u>782,470</u> | <u>736,767</u> | <u>736,767</u> | <u>(45,703)</u> | <u>0</u> |
| Expenditures: | | | | | |
| Instruction | 261,234 | 238,811 | 238,811 | 22,423 | 0 |
| Support services | 407,130 | 395,154 | 395,154 | 11,976 | 0 |
| Non-Instructional | 98,843 | 84,198 | 84,198 | 14,645 | 0 |
| Total Expenditures | <u>767,207</u> | <u>718,163</u> | <u>718,163</u> | <u>49,044</u> | <u>0</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>15,263</u> | <u>18,604</u> | <u>18,604</u> | <u>3,341</u> | <u>0</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | | | 0 | 0 | 0 |
| Transfers Out | (15,263) | (18,604) | (18,604) | (3,341) | 0 |
| Total Other Financing Sources (Uses) | <u>(15,263)</u> | <u>(18,604)</u> | <u>(18,604)</u> | <u>(3,341)</u> | <u>0</u> |
| Net Change in Fund Balances | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Fund Balances: | | | | | |
| July 1, 2006 | | 0 | 0 | 0 | 0 |
| Prior period adjustments (Note) | | | | | |
| July 1, 2006, as restated | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| June 30, 2007 | <u>\$ 0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |

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

LELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2007

Exhibit 3

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|---------------------|------------------|------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | | | | | |
| Revenues: | | | | | |
| Sixteenth Section Sources | \$ 249,273 | 286,855 | 286,855 | 37,582 | 0 |
| Total Revenues | <u>249,273</u> | <u>286,855</u> | <u>286,855</u> | <u>37,582</u> | <u>0</u> |
| Expenditures: | | | | | |
| Instruction | | | | 0 | 0 |
| Sixteenth Section | 22,175 | 26,281 | 26,281 | (4,106) | 0 |
| Total Expenditures | <u>22,175</u> | <u>26,281</u> | <u>26,281</u> | <u>(4,106)</u> | <u>0</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>227,098</u> | <u>260,574</u> | <u>260,574</u> | <u>33,476</u> | <u>0</u> |
| Other Financing Sources (Uses): | | | | | |
| Other financing sources | 0 | 0 | 0 | 0 | 0 |
| Operating 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>177,098</u> | <u>260,574</u> | <u>260,574</u> | <u>83,476</u> | <u>0</u> |
| Fund Balances: | | | | | |
| July 1, 2006 | 1,130,572 | 1,152,624 | 1,152,623 | 22,052 | (1) |
| Prior period adjustments (Note) | | | | | |
| July 1, 2006, as restated | <u>1,130,572</u> | <u>1,152,624</u> | <u>1,152,623</u> | <u>22,052</u> | <u>(1)</u> |
| June 30, 2007 | \$ <u>1,307,670</u> | <u>1,413,198</u> | <u>1,413,197</u> | <u>105,528</u> | <u>(1)</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, 2007

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 1****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2007

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | Catalog of Federal Domestic Assistance Number | Federal Expenditures |
|---|---|-------------------------|
| U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education: | | |
| Non-cash assistance: | | |
| Food Donation | 10.550 | \$39,105 |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | 142,772 |
| National School Lunch Program | 10.555 | 403,928 |
| Summer Food Service Program for Children | 10.559 | <u>10,888</u> |
| Total child nutrition cluster | | <u>557,588</u> |
| Total passed-through the MDE | | <u>596,693</u> |
| TOTAL U. S. DEPARTMENT OF AGRICULTURE | | 596,693 |
| | | |
| U.S. DEPARTMENT OF JUSTICE: | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | 78,151 |
| Total Department of Justice | | <u>78,151</u> |
| | | |
| FEDERAL COMMUNICATION COMMISSION | | |
| Administered through Universal Service Administrative Company: | | |
| The school and libraries program of the Universal Service Fund | 32.xxx | 78,495 |
| Total Federal Communication Commission | | <u>78,495</u> |
| | | |
| U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Department of Education: | | |
| Title I Grants to Local Educational Agencies | 84.010 | 736,767 |
| Vocational Education - Basic Grant to States | 84.048 | 20,848 |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | 11,006 |
| State Grants for Innovative Programs | 84.298 | 4,129 |
| Education Technology State Grants | 84.318 | 102,399 |
| Gaining Early Awareness and Readiness in Undergraduate Programs | 84.334 | 11,360 |
| Rural Education | 84.358 | 25,261 |
| Improving Teacher Quality - State Grants | 84.367 | 168,891 |
| Grants for State Assessments and Related Activities | 84.369 | 6,213 |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | 318,836 |
| Special Education - Preschool Grants | 84.173 | <u>10,756</u> |
| Total special education cluster | | <u>329,592</u> |
| Total passed-through the MDE | | <u>1,416,466</u> |
| TOTAL U. S. DEPARTMENT OF EDUCATION | | 1,416,466 |
| | | |
| TOTAL FOR ALL FEDERAL AWARDS | | <u>\$2,169,805</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, 2007

| Expenditures | Total | Instruction and Other Instructional | | General Administration | | School Administration | | Other |
|------------------------------|---------------------|-------------------------------------|----------------|------------------------|------------------|-----------------------|--|-------|
| | | | | | | | | |
| Salaries and fringe benefits | \$ 7,155,256 | 5,562,353 | 451,629 | 437,885 | 703,389 | | | |
| Other | 2,408,338 | 1,034,361 | 103,150 | 2,760 | 1,268,067 | | | |
| Total | \$ 9,563,594 | 6,596,714 | 554,779 | 440,645 | 1,971,456 | | | |
| Total number of students * | 1,110 | | | | | | | |
| Cost per student | \$ 8,616 | 5,943 | 500 | 397 | 1,776 | | | |

For purposes of this schedule, the following columnar descriptions are applicable:
Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100 & 2200 functional codes)
General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); 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 the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.
 Note: includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

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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, 2007, and have issued my report thereon dated January 25, 2008. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, record, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is not a material weakness.

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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
January 25, 2008

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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over compliance. A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of

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performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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
January 25, 2008

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, 2007, which collectively comprise Leland School District's basic financial statements and have issued my report thereon dated January 25, 2008. 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)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my procedures 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 \$12,761 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 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 other state laws and regulations.

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



J.E. Fortenberry, III, PC
January 25, 2008

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FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Leland School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

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 weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes.

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. Significant deficiency(ies) 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
 - b. Child Nutrition Cluster
CFDA# 10.553
CFDA# 10.555
CFDA# 10.559
 - c. Improving Teacher Quality
CFDA# 84.367
 - d. Special Education Cluster
CFDA #84.027
CFDA #84.173
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? No.

Section 2: Findings Relating to the Financial Statements

The results of my tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Significant Deficiency:

QZAB Accounts with Fiscal Agent Not Recorded in Centralized Accounting

07-1. Finding.

Management is responsible for ensuring that all monies received and expended are stated by the District in its centralized accounting records. This is done to ensure funds received were placed in the appropriate fund and expended as budgeted. The Notes to the Financial Statements describes the Qualified Zone Academy Bonds agreement between the District and two financiers regarding payment arrangements to be performed in order to sufficiently retire said debt. Annually, the District makes a predetermined payment to each fiscal agent who in turn invests the funds. Overall, the District is responsible for tracking both payments to the fiscal agents and to also record investment earnings. Audit procedures noted that the 2001 QZAB Bonds bank account had cash with the fiscal agent totaling \$87,172 and investment earnings totaling \$697 that was not recorded in the district's centralized accounting records. The 2005 QZAB Debt Service bank account had \$83,156 in investments and \$35 in cash with the fiscal agent that was not recorded in the district's centralized accounting records. In addition, the annual payments to the escrow agent and investment earnings were not recorded. Failure to record District transactions properly could result in a material misstatement and adversely affect proper reporting of the financial statements.

Recommendation

The District should immediately record the audit adjustments proposed in the proper fund to ensure a proper fund account balance for the following fiscal year. Furthermore, close scrutiny should be paid to this bank account to ensure account activity is recorded in an accurate and timely manner in the District's centralized accounting records.

District's Response

The District will immediately record the audit adjustments proposed in the proper fund to ensure a proper fund account balance for the following fiscal year. In the future, close scrutiny will be paid to this bank account to ensure account activity is recorded in an accurate and timely manner in the District's centralized accounting records.

Auditor's Response

Journal entries were made by the Business Manager to correct the significant deficiency on January 16, 2008 per auditor recommendation. Items listed above are current as of July 1, 2007.

Section 3: Findings and Questioned Costs for Federal Awards

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

