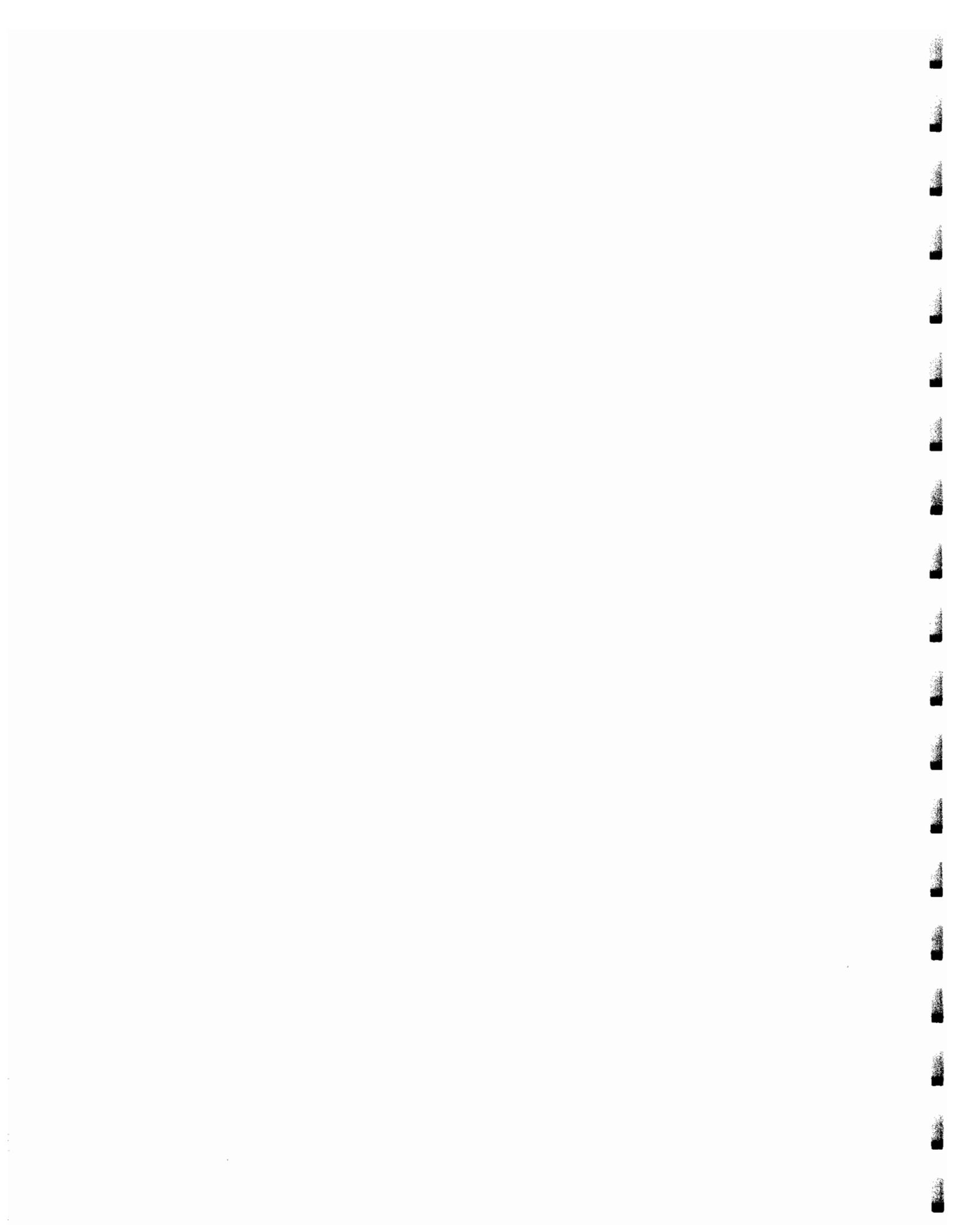




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INDIANOLA SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2005

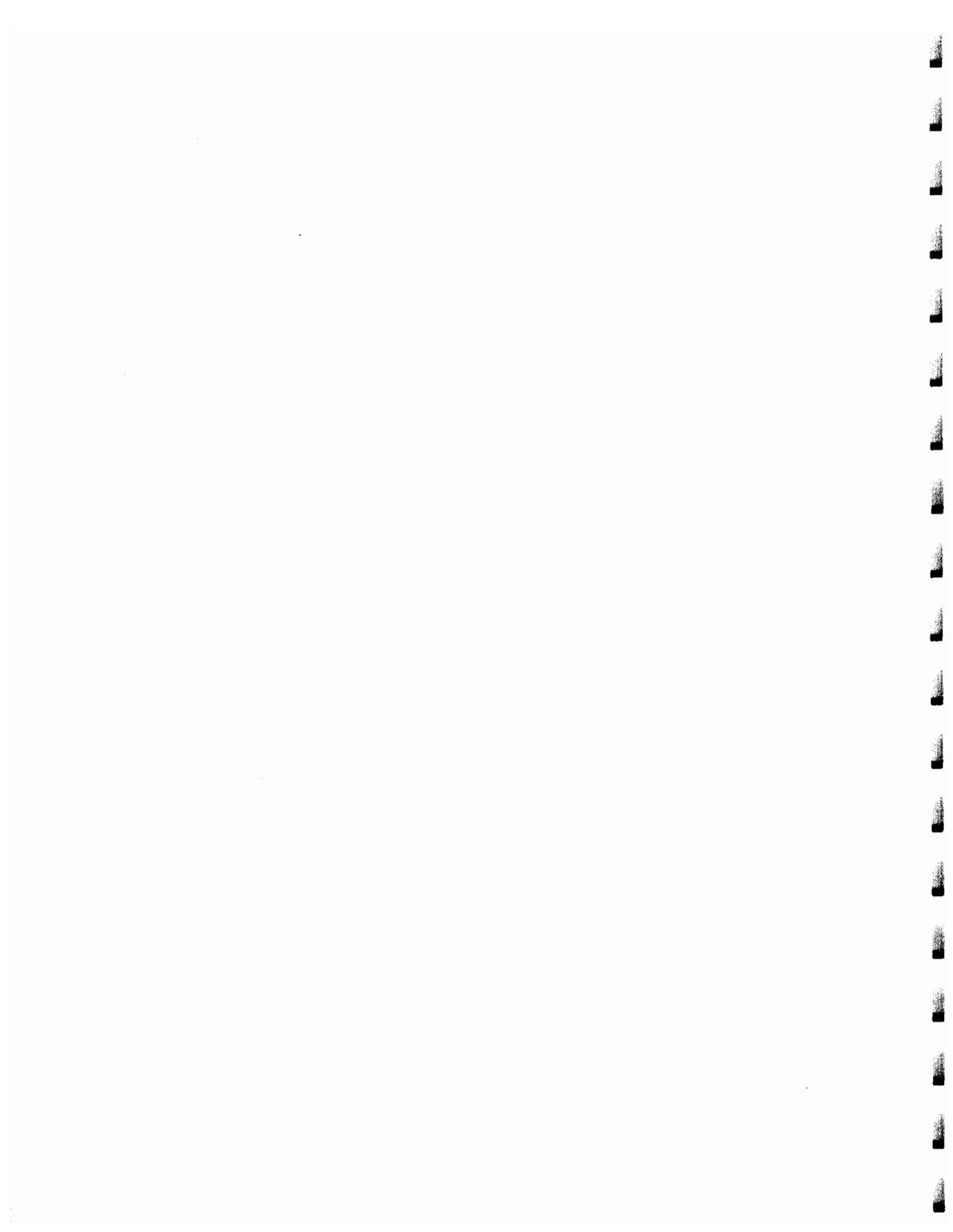
Robert Britt, CPA, P. A.
Clarksdale, Mississippi



INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

INDIANOLA SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Indianola School District

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

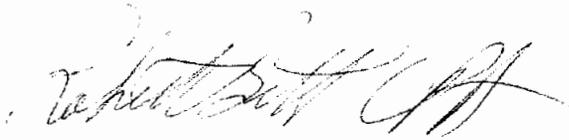
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, 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 Indianola School District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 2, 2007, on my consideration of the Indianola School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations contracts and grants and other matters. The purpose of that report is to describe the scope of 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 11 and the Budgetary Comparison Schedule and corresponding notes on pages 31 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 made for the purpose of forming opinions on the financial statements that collectively comprise the Western Line 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 on these statements 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 financial statements taken as a whole.



May 2, 2007

INDIANOLA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIANOLA SCHOOL DISTRICT

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

The discussion and analysis of Indianola County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

FINANCIAL HIGHLIGHTS

Total net assets decreased by \$ 155,053, which represents a 2.1% decrease from fiscal year 2004.

General revenues account for \$13,087,684 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$5,488,576 or 30% of total revenues.

The District had \$18,731,313 in expenses; only \$5,488,576 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$13,087,684 plus fund balances carried over from prior years were adequate to provide for these programs.

Among major funds, the General Fund had \$12,935,080 in revenues and \$ 12,968,352 in expenditures. The General Fund's fund balance decreased \$33,272 over the prior year. This decrease was expected as the district gave raises to all personnel without requesting an increase in local taxes. This decrease was easily absorbed by the surpluses of prior years.

Capital assets, net of accumulated depreciation, decreased by \$344,464.

Long-term debt decreased by \$725,359.

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 14-15 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 17 and 19, 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 16-18 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 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-30 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 32-34 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 36-37 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 \$7,216,556 as of June 30, 2005.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 compared to the same period in 2004.

	<u>Governmental Activities</u>		Percentage Change
	<u>2005</u>	<u>2004</u>	
Current assets	4,923,891	5,406,639	-8.93%
Capital assets, net	<u>10,919,256</u>	<u>11,263,720</u>	<u>-3.06%</u>
Total assets	<u>15,843,147</u>	<u>16,670,359</u>	<u>-4.96%</u>
Current liabilities	1,252,538	1,199,338	4.44%
Long-term debt outstanding	<u>7,374,053</u>	<u>8,099,412</u>	<u>-8.96%</u>
Total liabilities	<u>8,626,591</u>	<u>9,298,750</u>	<u>-7.23%</u>
Net assets:			
Invested in capital assets, net of related debt	3,639,256	3,253,720	-11.85%
Restricted	593,225	646,852	-8.29%
Unrestricted	<u>2,984,075</u>	<u>3,471,037</u>	<u>-14.03%</u>
Total net assets	<u>7,216,556</u>	<u>7,371,609</u>	<u>-2.10%</u>

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

The principal retirement of \$ 730,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005, were \$18,576,260. The total cost of all programs and services was \$18,731,313. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 compared to the same period in 2004.

	<u>Governmental Activities</u>		Percent Change
	<u>2005</u>	<u>2,004</u>	
Revenues:			
Program revenues	5,488,576	5,407,681	1.50%
General Revenues	<u>13,087,684</u>	<u>12,670,960</u>	<u>3.29%</u>
Total revenues	<u>18,576,260</u>	<u>18,078,641</u>	<u>2.75%</u>

Expenses:			
Instruction	10,770,577	10,347,903	4.08%
Support services	6,138,930	5,760,507	6.57%
Non-instructional	1,474,198	1,568,146	-5.99%
Sixteenth section	0	33,775	-100.00%
Interest on long-term obligations	347,608	376,968	-7.79%
Total Expenses	18,731,313	18,087,299	3.56%
Increase in net assets	(155,053)	(8,658)	1690.86%

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

	Total Cost of Services		Percent Change	Net Revenue (Expense)		Percent Change
	2005	2004		2005	2004	
Instruction	10,770,577	10,347,903	4.08%	(8,449,971)	(8,274,987)	2.11%
Support services	6,138,930	5,760,507	6.57%	(4,849,256)	(4,415,240)	9.83%
Non-instructional	1,474,198	1,568,146	-5.99%	(83,577)	66,323	-226.02%
Sixteenth section	0	33,775	-100.00%	0	(33,775)	-100.00%
Interest on long-term obligatio	347,608	376,968	-7.79%	140,067	110,707	26.52%
	18,731,313	18,087,299	3.56%	(13,242,737)	(12,546,972)	5.55%

Net cost of governmental activities \$13,242,737, was financed by general revenue, which is made up of primarily property taxes \$2,292,582, state revenue \$10,404,170, federal revenue \$216,501, and sixteenth section revenue \$133,724.

Investment earnings accounted for \$31,524 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,750,982, a decrease of \$533,110. \$3,142,970 or 84% 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 \$608,022 or 16% 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 decrease in fund balance in the General Fund for the fiscal year was \$ 434,914 primarily the result of providing raises for district personnel without increasing the tax burden on citizens. The fund balance of Other Governmental Funds showed a decrease of \$98,196 due primarily to the retirement of long term debt.

BUDGETARY HIGHLIGHTS

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

The budget was amended to reflect actual expenditures at the end of the year. Any differences from actual expenditures to budget in the accompanying budgetary comparison schedules is the result of adjustments made by the auditor.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$16,509,344, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$344,464 from the previous year due to depreciation on assets. Total accumulated depreciation as of June 30, 2005, was \$5,590,088 and total depreciation expense for the year was \$344,464, resulting in total net assets of \$10,919,256.

Additional information of the District's capital assets can be found in Note 5 on page 27 of this report.

Debt Administration. At June 30, 2005, the District had \$7,374,053 in general obligation bonds and other long-term debt outstanding, of which \$765,000 is due within one year.

The District maintains a AA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on pages 28-29 of this report.

CURRENT ISSUES

The Indianola School District is currently financial sound. Discounting unforeseen circumstances, there is no reason to believe the district will not remain financially sound far into the future. The district has been able to maintain a healthy fund balance despite rising cost without raising taxes for several years.

Latest enrollment figures indicate that student enrollment in the District will decrease by 12 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Indianola School District, 702 Highway 82 East, Indianola, MS 38751.

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

INDIANOLA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 3,948,691
Investments	29,031
Due from other governments	773,716
Other receivables, net	131,634
Inventories and prepaid items	14,797
Restricted assets	26,022
Capital assets, net (Note 5)	<u>10,919,256</u>
 Total Assets	 \$ <u><u>15,843,147</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 785,096
Interest payable on long-term liabilities	79,629
Deferred revenue	387,813
 Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	765,000
 Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	6,515,000
Non-capital related liabilities	<u>94,053</u>
 Total Liabilities	 \$ <u><u>8,626,591</u></u>
Net Assets	
Investment in capital assets, net of related debt	\$ 3,639,256
Restricted net assets:	
Expendable:	
Debt service	500,254
Unemployment benefits	48,335
Student scholarships	18,614
Nonexpendable	
Sixteenth section	26,022
Unrestricted	<u>2,984,075</u>
 Total Net Assets	 \$ <u><u>7,216,556</u></u>

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

INDIANOLA SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Assets
				Primary Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 10,770,577	426,879	1,893,727	(8,449,971)
Support services	6,138,930		1,289,674	(4,849,256)
Non-instructional	1,474,198	197,571	1,193,050	(83,577)
Interest on long-term liabilities	347,608		487,675	140,067
Total governmental activities	\$ <u>18,731,313</u>	<u>624,450</u>	<u>4,864,126</u>	<u>(13,242,737)</u>
Taxes:				
				1,857,969
				434,613
Unrestricted grants and contributions:				
				10,404,170
				216,501
				31,524
				133,724
				9,183
				<u>13,087,684</u>
				<u>(155,053)</u>
				<u>7,371,609</u>
				<u>\$ 7,216,556</u>

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

INDIANOLA SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds			
	General Fund	Title I Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents (Note 3)	\$ 2,212,495	426,147	1,336,071	3,974,713
Investments			29,031	29,031
Due from other governments	105,496		668,220	773,716
Other receivables, net	108,130			108,130
Due from other funds (Note 4)	480,671	1,261	48,282	530,214
Inventories and prepaid items			14,797	14,797
Total Assets	\$ 2,906,792	427,408	2,096,401	5,430,601
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 641,771	42,497	100,828	785,096
Due to other funds (Note 4)	68,440	11,328	426,942	506,710
Deferred Revenue		373,583	14,230	387,813
Total Liabilities	710,211	427,408	542,000	1,679,619
Fund Balances:				
Reserved for:				
Inventory			14,797	14,797
Debt Service			500,254	500,254
Unemployment benefits			48,335	48,335
Student scholarships			18,614	18,614
Permanent fund purposes			26,022	26,022
Unreserved:				
Undesignated, reported in:				
General fund	2,196,581			2,196,581
Special Revenue funds			946,379	946,379
Total Fund Balances	2,196,581	0	1,554,401	3,750,982
Total Liabilities and Fund Balances	\$ 2,906,792	427,408	2,096,401	5,430,601

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

INDIANOLA SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,750,982
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 5,590,088. (Note 5)	10,919,256
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(7,374,053)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	(79,629)
	<hr/>
Total Net Assets - Governmental Activities	\$ <u>7,216,556</u>

INDIANOLA SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2005

	Major Funds			Total Governmental Funds
	General Fund	Title I Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 2,311,095		677,024	2,988,119
State sources	10,407,484		1,113,168	11,520,652
Federal sources	216,501	986,562	2,721,518	3,924,581
Sixteenth section sources			133,725	133,725
Total Revenues	12,935,080	986,562	4,645,435	18,567,077
Expenditures:				
Instruction	8,203,970	509,808	1,824,812	10,538,590
Support services	4,741,692	405,736	919,164	6,066,592
Non instructional services	22,690	62,728	1,344,690	1,430,108
Debt service:				
Principal			730,000	730,000
Interest			344,080	344,080
Total Expenditures	12,968,352	978,272	5,162,746	19,109,370
Excess (Deficiency) of Revenues Over Expenditures	(33,272)	8,290	(517,311)	(542,293)
Other Financing Sources (Uses):				
Insurance loss recovery	9,183		0	9,183
Operating transfers in (Note 4)	183,087		583,633	766,720
Operating transfers out (Note 4)	(593,912)	(8,290)	(164,518)	(766,720)
Total Other Financing Sources (Uses)	(401,642)	(8,290)	419,115	9,183
Net Change in Fund Balances	(434,914)	0	(98,196)	(533,110)
Fund Balances:				
July 1, 2004	2,631,495		1,651,907	4,283,402
Decrease in reserve for inventory			690	690
June 30, 2005	\$ 2,196,581	0	1,554,401	3,750,982

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

INDIANOLA SCHOOL DISTRICT

Exhibit D-1

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (533,110)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. There were no capital assets purchased and the depreciation expense amounted to \$344,464. (Note 5)	(344,464)
2. Increase in Compensated absences is not recorded in the governmental funds, but increases expense in the statement of activity. (Note 6)	(4,641)
3. Payment of interest on long-term liabilities is reported as an expenditure when paid in the governmental funds, but is accrued and expensed in the period incurred in the statement of activity. (Note 6)	(3,528)
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)	730,000
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are decreased in the statement of activity.	<u>690</u>
Change in Net Assets of Governmental Activities	\$ <u>(155,053)</u>

INDIANOLA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

		Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$	61,844
Due from other funds (Note 4)		<u>16,508</u>
Total Assets	\$	<u>78,352</u>
Liabilities		
Accounts payable and accrued liabilities		5,396
Due to student clubs		32,944
Due to other funds (Note 4)		<u>40,012</u>
Total Liabilities	\$	<u>78,352</u>

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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the 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 an "other stand-alone government." The school district is a related organization, but not a component unit of, the city of Indianola since the governing authorities of the municipality select a majority of the school district's board but do not have financial accountability for the school 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 non exchange revenues.

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

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. 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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

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

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial math and reading services to low-income, program eligible students.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

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.

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 broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

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

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

G. Investments.

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

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

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 cost 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 cost of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	\$50,000	40 years
Buildings	\$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.

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

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 specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

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

Reserved for student scholarships - An account that represents that portion of fund balance which was restricted donors and available only for scholarships to students to attend institutions of higher learning.

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

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

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

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

M. Property Taxes

Ad valorem property taxes are levied by the governing authorities of the 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 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 to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on 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.

P. Estimates.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(2) Changes in Accounting Standards

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, and Investments

Cash and Cash Equivalents.

The collateral for public entities' 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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,974,713 and \$61,844, respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$3,948,691 and Restricted Assets \$26,022 . The Restricted assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$5,098,399

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$5,098,399 was exposed to custodial credit risk.

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.

Investments.

As of June 30, 2005, the district had the following investments.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Handcock Horizon Treasury Fund	Less than 1 year	<u>29,031</u>	None
Total Investments		<u><u>29,031</u></u>	

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 investment 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. As of June 30, 2005 none of the district's investment balance of \$26,031 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances.

A. Due From/To Other Funds:

<u>Due From/To Other Funds:</u>	<u>Due From</u>	<u>Due to</u>
Governmental Funds		
General Fund	480,671	68,440
Title I	1,261	11,328
Other Governmental Funds	48,282	426,942
Fiduciary Funds	<u>16,508</u>	<u>40,012</u>
Total	<u><u>\$546,722</u></u>	<u><u>\$546,722</u></u>

Interfund loans are necessary to provide cash to reimbursable programs at year end, since the actual cash is not received until after June 30.

Notes to the Financial Statements
For the Year Ending June 30, 2005

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	183,087	593,912
Title I Fund		8,290
Other Governmental Funds	<u>583,633</u>	<u>164,518</u>
Total	<u><u>766,720</u></u>	<u><u>766,720</u></u>

Transfers were made from federal funds for indirect cost to the General Fund and a transfer was made from the 16th Section Fund to the general fund for operations. Also transfers were made from the General Fund to other governmental funds to offset program cost which were not reimbursed by state or federal funds.

(5) Capital Assets.

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

	<u>Balance</u> 07/01/04	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 06/30/05
Non-depreciable Capital Assets				
Land	<u>351,254</u>			<u>351,254</u>
Depreciable Capital Assets				
Buildings	14,406,386			14,406,386
Improvements other than buildings	190,755			190,755
Mobile equipment	1,051,419			1,051,419
Furniture and equipment	<u>509,530</u>			<u>509,530</u>
Total Depreciable Capital Assets	<u>16,158,090</u>	<u>0</u>	<u>0</u>	<u>16,158,090</u>
Less accumulated depreciation for:				
Buildings	4,019,405	267,095		4,286,500
Improvements other than buildings	145,976	6,628		152,604
Mobile equipment	684,733	35,350		720,083
Furniture and equipment	<u>395,510</u>	<u>35,391</u>		<u>430,901</u>
Total accumulated depreciation	<u>5,245,624</u>	<u>344,464</u>	<u>0</u>	<u>5,590,088</u>
Net depreciable assets	<u>10,912,466</u>	<u>(344,464)</u>	<u>0</u>	<u>10,568,002</u>
Governmental activities capital assets net	<u><u>11,263,720</u></u>	<u><u>(344,464)</u></u>	<u><u>0</u></u>	<u><u>10,919,256</u></u>

Depreciation was charged to the following functions:

	<u>Amount</u>
Instruction	227,346
Support services	72,338
Non-instructional	<u>44,780</u>
Total depreciation expense	<u><u>344,464</u></u>

The capital assets above include significant amounts of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

(6) Long-term Liabilities.

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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

	Balance 07/01/04	Additions	Reductions	Balance 06/30/05	Due within one year
A. General obligation bonds payable	\$2,245,000		\$430,000	\$1,815,000	\$445,000
B. Limited obligation bonds payable	4,880,000		250,000	4,630,000	265,000
C. Three mill notes payable	885,000		50,000	835,000	55,000
E. Compensated absences payable	89,412	4,641		94,053	0
Total	<u>\$8,099,412</u>	<u>\$4,641</u>	<u>\$730,000</u>	<u>\$7,374,053</u>	<u>\$765,000</u>

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds Series 2003	2%	3/1/03	3/1/09	\$2,660,000	\$1,815,000

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

Year Ending June 30,	Principal	Interest	Total
2006	445,000	47,725	492,725
2007	455,000	38,825	493,825
2008	465,000	27,450	492,450
2009	450,000	13,500	463,500
Total	<u>1,815,000</u>	<u>127,500</u>	<u>1,942,500</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2003, the amount outstanding bonded indebtedness was equal to 3% of property assessments as of September 30, 2004.

This debt will be retired from the GO Bond Retirement debt service fund.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Bonds, Series 1998	Variable	3/1/98	3/1/18	\$5,810,000	\$4,630,000

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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

Year Ending June 30,	Principal	Interest	Total
2006	265,000	221,330	486,330
2007	280,000	206,755	486,755
2008	295,000	192,195	487,195
2009	305,000	178,920	483,920
2010	320,000	164,890	484,890
2011-2015	1,840,000	585,033	2,425,033
2016-2020	<u>1,325,000</u>	<u>128,012</u>	<u>1,453,012</u>
Total	<u>4,630,000</u>	<u>1,677,135</u>	<u>6,307,135</u>

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

This debt will be retired from the MAEP debt service fund.

C. Three mill-ten year notes payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Indianola School District Limited Tax Notes, Series 1998	6.00%	8/1/97	8/1/17	\$1,200,000	\$835,000

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

Year Ending June 30,	Principal	Interest	Total
2006	55,000	49,459	104,459
2007	60,000	45,938	105,938
2008	60,000	42,263	102,263
2009	65,000	38,434	103,434
2010	70,000	34,300	104,300
2011-2015	425,000	99,766	524,766
2016-2020	<u>100,000</u>	<u>3,062</u>	<u>103,062</u>
Total	<u>835,000</u>	<u>313,222</u>	<u>1,148,222</u>

This debt will be retired from the EEF Buildings and Buses Fund.

D. Compensated absences payable.

As more fully explained in Note 1(P), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972).

(7) Defined Benefit Pension Plan.

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

INDIANOLA SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$ 1017,930, \$ 931,641 and \$911,090, respectively, which equaled the required contribution for each year.

(8) Sixteenth Section Funds.

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

Year Ending June 30,

2006	53,064
2007	53,064
2008	34,190
2009	<u>31,733</u>
Total	<u>172,051</u>

(9) Litigation.

The school district at June 30, 2005, was involved in litigation against a former employee who was charged with embezzlement. On February 12, 2007, the employee entered a guilty plea and agreed to repay \$108,130 to the school district. This amount has been accrued as an asset in the District Maintenance Fund.

(10) Risk Management.

The school district is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three 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 consist of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

INDIANOLA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,230,696	2,311,095	2,311,095	80,399	0
State sources	10,942,932	10,407,484	10,407,484	(535,448)	0
Federal sources	40,000	12,500	216,501	(27,500)	204,001
Total Revenues	13,213,628	12,731,079	12,935,080	(482,549)	204,001
Expenditures:					
Instruction	8,568,931	7,999,969	8,203,970	568,962	(204,001)
Support services	4,929,873	4,849,822	4,741,692	80,051	108,130
Noninstructional service	22,000	22,690	22,690	(690)	0
Total Expenditures	13,520,804	12,872,481	12,968,352	648,323	(95,871)
Excess (Deficiency) of Revenues Over Expenditures	(307,176)	(141,402)	(33,272)	165,774	108,130
Other Financing Sources (Uses):					
Insurance loss recovery	0	9,183	9,183	9,183	0
Operating transfers in	100,000	183,087	183,087	83,087	0
Operating transfers out	(600,000)	(593,912)	(593,912)	6,088	0
Total Other Financing Sources (Uses)	(500,000)	(401,642)	(401,642)	98,358	0
Net Change in Fund Balances	(807,176)	(543,044)	(434,914)	264,132	108,130
Fund Balances:					
July 1, 2004	2,631,495	2,631,495	2,631,495	0	0
June 30, 2005	1,824,319	2,088,451	2,196,581	264,132	108,130

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

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I
 For the Year Ended June 30, 2005

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,000,000	986,562	986,562	(13,438)	0
Total Revenues	1,000,000	986,562	986,562	(13,438)	0
Expenditures:					
Instruction	500,000	509,808	509,808	(9,808)	0
Support services	440,000	405,736	405,736	34,264	0
Noninstructional services	50,000	62,728	62,728	(12,728)	0
Total Expenditures	990,000	978,272	978,272	11,728	0
Excess (Deficiency) of Revenues Over Expenditures	10,000	8,290	8,290	(1,710)	0
Other Financing Sources (Uses):					
Operating transfers out	(10,000)	(8,290)	(8,290)	1,710	0
Total Other Financing Sources (Uses)	(10,000)	(8,290)	(8,290)	1,710	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2004	0	0	0	0	0
June 30, 2005	0	0	0	0	0

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

INDIANOLA SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ending June 30, 2005

Notes to the Required Supplementary Information

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

(3) Individual Fund Disclosures.

The District Maintenance Fund has an excess of expenditures over budget in the amount of \$95,871. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

INDIANOLA SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

INDIANOLA SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Schedule 3

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Catalog of Federal Domesti <u>Assistance Numb</u>	Federal <u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	91,501
Child Nutrition Cluster:		
School Breakfast Program	10.553	259,405
National School Lunch Program	10.555	<u>908,897</u>
Total Nutrition Cluster		<u>1,168,302</u>
Total Passed through Mississippi Department of Education		<u>1,259,803</u>
Total U.S. Department of Agriculture		<u>1,259,803</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	216,501
Total Federal Communication Commission		<u>216,501</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Twenty-First Century Community Learning Centers	84.287	<u>38,278</u>
Total direct programs		<u>38,278</u>
Passed through Mississippi Department of Education		
Special Education Cluster		
Special education grants to state	84.027	479,362
Special education - preschool grants	84.173	<u>12,709</u>
Total Special Education Cluster		492,071

Title 1 grants to local educational agencies	84.010	1,385,392
Vocational education basic grants to states	84.048	4,623
Safe and drug free schools and communities- state grants	84.186	39,457
Education technology state grants	84.318	35,880
Comprehensive school reform demonstration	84.332	72,567
Rural education	84.358	96,384
Improving teacher quality - state grants	84.367	<u>233,512</u>
 Total Passed through Mississippi Department of Education		<u>2,359,886</u>
 Total U.S. Department of Education		<u>2,398,164</u>
 <u>Other Federal Assistance</u>		
Direct Program		
Reserve Officers' Training Corps	12.XXX	50,113
<u>Total Other Federal Assistance</u>		
 Total for All Federal Awards		<u>3,924,581</u>

NOTES TO SCHEDULE

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

Indianola School District

Schedule 4

Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds

For the Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Total</u>	<u>Instructional</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 12,915,200	\$ 9,394,733	\$ 1,547,689	\$ 1,972,778
Other expenditures	<u>6,194,170</u>	<u>1,143,857</u>	<u>505,277</u>	<u>4,545,036</u>
Total	\$ <u>19,109,370</u>	\$ <u>10,538,590</u>	\$ <u>2,052,966</u>	\$ <u>6,517,814</u>
 Total number of students:	 2,812			
 Cost per student:	 \$ <u>6,796</u>	 \$ <u>3,748</u>	 \$ <u>730</u>	 \$ <u>2,318</u>

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

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type - all the 1000 functional codes

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

Support Services - School Administration (2400s); Support Services - Business (2500s)

INDIANOLA SCHOOL DISTRICT

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

INDIANOLA SCHOOL DISTRICT

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

Superintendent and School Board
Indianola School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Indianola School District as of and for the year ended June 30, 2005, which collectively comprise the Indianola School District's basic financial statements as listed in the table of contents and have issued my report thereon dated May 2, 2007. 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 our audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

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

Auditing Standards. However, I noted a certain immaterial instance of noncompliance that I have reported to management of the school district in a separate letter dated May 2, 2007, which is included in this report.

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.

A handwritten signature in cursive script, appearing to read "C. J. [unclear]".

May 2, 2007

INDIANOLA SCHOOL DISTRICT

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

INDIANOLA SCHOOL DISTRICT

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

Superintendent and School Board
Indianola School District

Compliance

I have audited the compliance of the Indianola School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 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 that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the school district's compliance with those requirements.

As described in Finding 05-01 in the Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding Cash Management that are applicable to its Title I Program. Compliance with such requirements is necessary, in my opinion, for the school district to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Indianola School District, complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

A handwritten signature in cursive script, appearing to read "C. J. [unclear]".

May 2, 2007

INDIANOLA SCHOOL DISTRICT

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

INDIANOLA SCHOOL DISTRICT

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

Superintendent and School Board
Indianola School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Indianola School District as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the Indianola School District, and have issued my report thereon dated May 2, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we 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 \$36,199 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. My finding and recommendation and your response are as follows:

Finding

Code Section 37-9-14(7) Miss. Code Ann. (1972) forbids the district from releasing checks for payment to vendors or employees unless there is sufficient cash in the bank account to cover such checks. The district failed to make a \$14,533 transfer from one of its activity fund accounts into the claims payable clearing fund account before checks were released. These funds were not transferred for several months which caused three instances of overdraft in the claims payable clearing fund account.

Recommendation

The district should comply with Code Section 37-9-14(7) Miss. Code Ann. (1972), and implement a procedure to insure transfers are made into the clearing funds to cover all checks written before they are released.

A similar finding was reported in the 2004 audit report

School District's Response

The person responsible for coordinating the transfers into the claims payable clearing fund was dismissed for embezzlement. This error occurred while she was still employed and not discovered until after June 30, 2005. This situation should not occur in the future.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

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.

A handwritten signature in cursive script, likely belonging to the State Auditor or a representative of the Office of the State Auditor.

May 2, 2007

INDIANOLA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT

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

Section 1: Summary of Auditor's results

Financial Statements:

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

Federal Awards:

- | | |
|---|---------------|
| 4. Type of auditor's opinion issues on compliance for major programs: | Qualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | Yes |
| 7. The major programs were: | |
| Child Nutrition Cluster | |
| School Breakfast Program | - CFDA 10.553 |
| National School Lunch Program | - CFDA 10.555 |
| Special Education Cluster | |
| Special Education Grants to States | - CFDA 84.027 |
| Special Education Preschool Grants | - CFDA 84.173 |
| Title 1 Grants to Local Educational Agencies | - CFDA 84.010 |
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | \$300,000. |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133. | No |

Section 2: Findings Related to the Financial Statements

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

Section 3: Findings and Questioned Cost for Federal Awards

Material noncompliance

05-01. Finding

Program: Title I Program - CFDA's # 84.010
U. S. Department of Education; passed through
The Mississippi Department of Education

Compliance requirement: Cash Management

The district requested funds in excess of immediate need from the Mississippi Department of Education. Federal cash management requirements allow drawdown of funds only to cover immediate needs. At June 30, 2005 the Title I Fund had surplus cash of \$373,583 which was recorded as deferred revenue.

Questions cost: None

Recommendation

The district should comply with cash management requirements and only request funds for the immediate needs of the Title I Program.

INDIANOLA SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

INDIANOLA SCHOOL DISTRICT

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INDIANOLA
SCHOOL DISTRICT

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Financial and Compliance Audit Division

As required by Section __.315(b) of OMB Circular A-133, the Indianola School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ending June 30, 2005:

Finding

Corrective Action Plan Details

05-01

a. Contact Person Gwen Durham
Business Manager
(662) 887-2654

b. This was simply an error in requesting funds. A procedure has been implemented to request funds only for immediate needs. The funds in question have been used to carry out the Title I program in the 2006 fiscal year.

c. This is currently in place.

Sincerely yours,

King David Rush
Superintendent of Education

