



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.



**OKOLONA SCHOOL DISTRICT**  
**FINANCIAL AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**OKOLONA SCHOOL DISTRICT  
TABLE OF CONTENTS  
JUNE 30, 2005**

	<u>Page</u>
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	4
Management's Discussion and Analysis	6
Financial Statements	14
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	20
Statement of Fiduciary Net Assets	21
Notes to Financial Statements	22
Required Supplementary Information	40
Budgetary Comparison Schedule for the General Fund	41
Budgetary Comparison Schedule for the School Food Service Fund	42
Budgetary Comparison Schedule for the Summer Feeding 2005 Fund	43

**OKOLONA SCHOOL DISTRICT  
TABLE OF CONTENTS (CONTINUED)  
JUNE 30, 2005**

	<u>Page</u>
Required Supplementary Information (Continued)	
Notes to the Required Supplementary Information	44
Supplemental Information	45
Schedule of Expenditures of Federal Awards	46
Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds	48
Reports on Compliance and Internal Control	49
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	52
Independent Auditors' Report on Compliance with State Laws and Regulations	54
Schedule of Findings and Questioned Costs	55

**J.E. VANCE & COMPANY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET  
POST OFFICE BOX 1280  
TUPELO, MISSISSIPPI 38802

(662) 842-2123  
FACSIMILE (662) 841-6809  
E-MAIL: jev@jevance.com

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

Superintendent and School Board  
Okolona School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona School District as of and for the year ended June 30, 2005, which collectively comprise the Okolona School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Okolona School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona 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*, we have also issued our report dated October 11, 2005, on our consideration of the Okolona School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 44 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. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Okolona School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 11, 2005  
Tupelo, Mississippi

*J. E. Vance & Company*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The discussion and analysis of Okolona 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.

**FINANCIAL HIGHLIGHTS**

- Total net assets decreased \$100,921, which represents a 6% decrease from fiscal year 2004. Total net assets for 2004 increased \$401,350, which represents a 33% increase from fiscal year 2003.
- General revenues account for \$4,840,131 and \$4,706,942 in revenue, or 71% of all revenues for fiscal years 2005 and 2004. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,008,028 or 29% of total revenues for 2005 and \$1,892,412 or 29% of total revenues for 2004.
- The District had \$6,925,114 and \$6,198,814 in expenses for fiscal years 2005 and 2004; only \$2,008,028 for 2005 and \$1,892,412 for 2004 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$4,840,131 for 2005 and \$4,706,942 for 2004 were adequate to provide for these programs.
- Among major funds, the General Fund had \$4,729,418 in revenues and \$4,755,919 in expenditures for 2005 and \$4,583,501 in revenues and \$4,387,692 in expenditures for 2004. The General Fund's fund balance decreased \$179,753 from 2004 to 2005, and increased \$135,873 from 2003 to 2004.
- Capital assets, net of accumulated depreciation, decreased by \$73,460 for 2005 and increased by \$35,458 for 2004.
- Long-term debt decreased by \$86,334 for 2005 and \$179,817 for 2004.

## 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 and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 and 16 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 18 and 20, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. 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 17 and 19 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 21.

**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 22 - 39 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 special revenue fund. This required supplementary information can be found on pages 41 - 44 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 46 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 \$1,502,967 as of June 30, 2005 and by \$1,603,888 as of June 30, 2004.

By far the largest portion of the District's net assets (53% for 2005 and 51% for 2004) reflects its investment in capital assets (e.g., land, buildings, building improvements, 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 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 years ended June 30, 2005 and 2004.

	2005	2004	\$ Variance	% Variance
Current assets	\$ 955,294	\$ 915,963	39,331	4.29%
Capital assets, net	2,566,549	2,640,009	(73,460)	-2.78%
Total assets	<u>3,521,843</u>	<u>3,555,972</u>	(34,129)	-0.96%
Current liabilities	201,095	220,613	19,518	8.85%
Long-term debt outstanding	1,817,781	1,731,471	(86,310)	-4.98%
Total liabilities	<u>2,018,876</u>	<u>1,952,084</u>	(66,792)	-3.42%
Net assets:				
Invested in capital assets, net of related debt	790,447	812,596	22,149	2.73%
Restricted	393,121	327,163	(65,958)	-20.16%
Unrestricted	319,399	464,129	144,730	31.18%
Total net assets	<u>\$ 1,502,967</u>	<u>\$ 1,603,888</u>	100,921	6.29%

There were no significant current year transactions that had an impact on the Statement of Net Assets.

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2005 and 2004 were \$6,848,159 and \$6,599,354, respectively. The total cost of all programs and services was \$6,925,114 and \$6,198,815 for 2005 and 2004, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	2005	2004	\$ Variance	% Variance
<b>Revenues:</b>				
Program revenues	\$ 2,008,028	\$ 1,892,412	115,616	6.11%
General revenues	4,840,131	4,706,942	133,189	2.83%
<b>Total revenues</b>	<u>6,848,159</u>	<u>6,599,354</u>	248,805	3.77%
<b>Expenses:</b>				
Instruction	4,197,428	3,832,687	364,741	9.52%
Support services	2,251,120	1,941,438	309,682	15.95%
Non-instructional	366,334	359,177	7,157	1.99%
Interest on long-term liabilities	110,232	65,513	44,719	68.26%
<b>Total expenses</b>	<u>6,925,114</u>	<u>6,198,815</u>	726,299	11.72%
<b>Increase (decrease) in net assets</b>	<u>\$ (76,955)</u>	<u>\$ 400,539</u>	(477,494)	-119.21%

**Governmental activities.** The following table presents the cost of four major District functional activities: instruction, support services, non-instructional 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.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 4,197,428	\$ (3,013,569)	\$ 3,832,687	\$ (2,787,589)
Support services	2,251,120	(1,828,312)	1,941,438	(1,512,994)
Non-instructional	366,334	35,027	359,177	59,693
Interest on long-term liabilities	110,232	(110,232)	65,513	(65,513)
<b>Total expenses</b>	<u>\$ 6,925,114</u>	<u>\$ (4,917,086)</u>	<u>\$ 6,198,815</u>	<u>\$ (4,306,403)</u>

- Net cost of governmental activities (\$4,917,086 for 2005 and \$4,306,403 for 2004), was financed by general revenue, which is made up of primarily property taxes (\$945,560 for 2005 and \$958,541 for 2004) and state revenue (\$3,817,101 for 2005 and \$3,694,068 for 2004).
- Investment earnings accounted for \$13,798 and \$7,533 of funding for 2005 and 2004, respectively.

## 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 \$782,999 for 2005, a decrease of \$94,497 from 2004, and \$877,496 for 2004, an increase of \$157,861 from 2003. \$758,970 or 97% for 2005 and \$845,146 or 96% for 2004 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 \$24,029 or 3% for 2005 and \$32,350 or 4% for 2004 is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

	2005	2004
Inventory	\$ 7,421	\$ 15,553
Unemployment Benefits	16,608	16,797
Total assets	<u>\$ 24,029</u>	<u>\$ 32,350</u>

The General Fund is the principal operating fund of the District. The fund balance in the General Fund showed a decrease of \$179,753 for 2005 and an increase of \$135,832 for 2004. The fund balance of Other Governmental Funds showed a decrease for 2005 and an increase for 2004.

## BUDGETARY HIGHLIGHTS

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

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** The District's total capital assets were \$4,738,895 for 2005 and \$4,745,895 for 2004, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents a decrease of \$7,000 from 2004 to 2005 and an increase of \$132,315 from 2003 to 2004. Total accumulated depreciation was \$2,172,346 for 2005 and \$2,105,886 for 2004. Total depreciation expense was \$106,504 for 2005 and \$103,661 for 2004, resulting in total net assets of \$2,566,549 for 2005 and \$2,640,009 for 2004.

Additional information of the District's capital assets can be found in Note 4 on pages 31 and 32 of this report.

**Debt Administration.** At June 30, 2005, the District had \$1,817,781 in long-term debt outstanding, of which \$157,338 is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 5 on pages 32 - 36 of this report.

### **CURRENT ISSUES**

The Okolona 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 Okolona School District, P. O. Box 510 or 503 West Main, Okolona, MS 38860.

**FINANCIAL STATEMENTS**

**OKOLONA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ 723,341
Investments (Note 2)	19,069
Due from other governments	180,230
Inventories and prepaid items	7,421
Restricted assets	25,233
Capital assets, net (Note 4)	<u>2,566,549</u>
Total Assets	<u>\$ 3,521,843</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 92,061
Interest payable on long-term liabilities	28,800
Deferred revenue	80,234
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	157,338
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	1,618,764
Non-capital related liabilities	<u>41,679</u>
Total Liabilities	<u>\$ 2,018,876</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 790,447
Restricted net assets:	
Expendable:	
School-based activities	139,570
Debt service	85,906
Capital improvements	125,804
Unemployment benefits	16,608
Non-expendable:	
Other	25,233
Unrestricted	<u>319,399</u>
Total Net Assets	<u>\$ 1,502,967</u>

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

**OKOLONA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 4,197,428	93,020	1,073,143	17,696	(3,013,569)
Support services	2,251,120		417,714	5,094	(1,828,312)
Non-instructional	366,334	35,906	331,057	34,398	35,027
Interest on long-term liabilities	110,232				(110,232)
<b>Total governmental activities</b>	<b>\$ 6,925,114</b>	<b>128,926</b>	<b>1,821,914</b>	<b>57,188</b>	<b>(4,917,086)</b>
General Revenues:					
Taxes:					
					880,136
					65,424
Unrestricted grants and contributions:					
					3,817,101
					39,462
Unrestricted investment earnings					
					13,798
Other					
					24,210
					<u>4,840,131</u>
					(76,955)
					1,603,888
					<u>(23,966)</u>
					1,579,922
					<u>\$ 1,502,967</u>

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

**OKOLONA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	Major Funds							Total Governmental Funds
	General Fund	School Food Service	Summer Feeding 2005	Building Improvement & Transportation	MAEP Bond Issue Fund	Other Governmental Funds		
<b>ASSETS</b>								
Cash and cash equivalents (Note 2)	\$ 338,984	160,680	8,993	125,804	19,069	114,113	748,574	
Investments (Note 2)	57,017				81,608	41,605	19,069	
Due from other governments	6,881	15,000					180,230	
Due from other funds (Note 3)		7,421					21,881	
Inventories and prepaid items							7,421	
<b>Total Assets</b>	<b>\$ 402,882</b>	<b>183,101</b>	<b>8,993</b>	<b>125,804</b>	<b>100,677</b>	<b>155,718</b>	<b>977,175</b>	
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 41,804	2,503	6,699			41,055	92,061	
Due to other funds (Note 3)		80,234	15,000			6,881	21,881	
Deferred revenue							80,234	
<b>Total Liabilities</b>	<b>41,804</b>	<b>82,737</b>	<b>21,699</b>	<b>-0-</b>	<b>-0-</b>	<b>47,936</b>	<b>194,176</b>	
<b>Fund Balances:</b>								
Reserved for:								
Unemployment benefits						16,608	16,608	
Inventory		7,421					7,421	
Unreserved:								
Undesignated, reported in:								
General fund	361,078						361,078	
Special Revenue funds		92,943	(12,706)	125,804		51,912	132,149	
Capital Projects funds					100,677		125,804	
Debt Service funds						14,029	114,706	
Permanent funds						25,233	25,233	
<b>Total Fund Balances</b>	<b>361,078</b>	<b>100,364</b>	<b>(12,706)</b>	<b>125,804</b>	<b>100,677</b>	<b>107,782</b>	<b>782,999</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 402,882</b>	<b>183,101</b>	<b>8,993</b>	<b>125,804</b>	<b>100,677</b>	<b>155,718</b>	<b>977,175</b>	

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

**OKOLONA SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	Amount
Total Fund Balance - Governmental Funds	\$ 782,999
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,172,346. (Note 4)	2,566,549
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(1,817,781)
3. Interest payable on long-term liabilities	(28,800)
	(1,846,581)
Total Net Assets - Governmental Activities	\$ 1,502,967

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

**OKOLONA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Major Fund							Total Governmental Funds
	General Fund	School Food Service	Summer Feeding 2005	Building Improvements & Transportation	MAEP Bond Issue Fund	Other Governmental Funds		
<b>Revenues:</b>								
Local sources	\$ 998,286	37,297		804	797	66,225	1,103,409	
State sources	3,674,710	3,013			163,213	250,239	4,091,175	
Federal sources	56,422	372,200				1,215,866	1,644,488	
Total Revenues	<u>4,729,418</u>	<u>412,510</u>	<u>-0-</u>	<u>804</u>	<u>164,010</u>	<u>1,532,330</u>	<u>6,839,072</u>	
<b>Expenditures:</b>								
Instruction	3,043,746					1,106,370	4,150,116	
Support services	1,684,901	63,380	839			461,938	2,211,058	
Noninstructional services		338,762	10,456			1,220	350,438	
Debt service:								
Principal	25,166				85,000	71,170	181,336	
Interest	2,106				76,620	11,659	90,385	
Other					550		550	
Total Expenditures	<u>4,755,919</u>	<u>402,142</u>	<u>11,295</u>	<u>-0-</u>	<u>162,170</u>	<u>1,652,357</u>	<u>6,983,883</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>(26,501)</u>	<u>10,368</u>	<u>(11,295)</u>	<u>804</u>	<u>1,840</u>	<u>(120,027)</u>	<u>(144,811)</u>	
<b>Other Financing Sources (Uses):</b>								
Insurance loss recoveries	8,352						8,352	
Sale of transportation equipment	735						735	
Operating transfers in	582,701	1,394		125,000		134,215	843,310	
Operating transfers out	(751,743)	(12,500)	(1,411)			(77,656)	(843,310)	
Total Other Financing Sources (Uses)	<u>(159,955)</u>	<u>(11,106)</u>	<u>(1,411)</u>	<u>125,000</u>	<u>-0-</u>	<u>56,559</u>	<u>9,087</u>	
Net Change in Fund Balances	<u>(186,456)</u>	<u>(738)</u>	<u>(12,706)</u>	<u>125,804</u>	<u>1,840</u>	<u>(63,468)</u>	<u>(135,724)</u>	
<b>Fund Balances:</b>								
July 01, 2004	540,831	109,234	-0-	-0-	98,877	128,554	877,496	
Prior period adjustments (Note 9)	6,703				(40)	42,696	49,359	
July 1, 2004, as restated	<u>547,534</u>	<u>109,234</u>	<u>-0-</u>	<u>-0-</u>	<u>98,837</u>	<u>171,250</u>	<u>926,855</u>	
Increase (Decrease) in reserve for inventory		(8,132)					(8,132)	
June 30, 2005	<u>\$ 361,078</u>	<u>100,364</u>	<u>(12,706)</u>	<u>125,804</u>	<u>100,677</u>	<u>107,782</u>	<u>782,999</u>	

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

**OKOLONA SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (135,724)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$10,500 and the depreciation expense amounted to \$106,504. (Note 4)	(96,004)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	181,336
3. Losses from the disposal of capital assets are not reported in governmental funds, but the losses increase expenditures in the statement of activities.	(1,750)
4. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$28,800, which is a decrease from last year.	(19,298)
5. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences decreased to \$41,679.	2,617
6. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	<u>(8,132)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(76,955)</u></u>

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

**OKOLONA SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ <u>307,479</u>
Total Assets	\$ <u><u>307,479</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 305,135
Due to student clubs	<u>2,344</u>
Total Liabilities	\$ <u><u>307,479</u></u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Okolona since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

**B. Basis of Presentation**

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

Government-wide Financial Statements

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

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in 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.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

School Food Service Fund - This is the school district's fund for accounting for the food service operation for the regular school year.

Summer Feeding 2005 Fund - This is the school district's fund for accounting for the food service operation for summer 2005.

Building Improvement & Transportation - This is the school district's fund for accounting for expenditures related to building improvements and transportation.

MAEP Bond Issue Fund - This is the school district's fund for accounting for the state funding of the repayment of the state aid capital improvement bonds.

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.

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.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**D. Account Classifications**

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

**E. Encumbrances**

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

**F. Cash and Cash Equivalents**

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

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

**G. Investments**

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in 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.

**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).

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

**I. Capital Assets**

Capital 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 4 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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**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 3 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."

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements

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

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

Reserved for unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund, which is legally restricted for the payment of unemployment benefits.

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.

**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 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).

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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 only the compensated absence liability payable from expendable available financial resources

**Note 2: 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 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 \$748,574 and \$307,479, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$723,341 and Restricted Assets \$25,233. The Restricted assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$1,528,338.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$1,528,338 was exposed to custodial credit risk.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 2: Cash and Cash Equivalents and Investments (Continued)**

Investments

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Government Securities	More than 10	\$ 19,069	AA
Total Investments		<u>\$ 19,069</u>	

*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.

**Note 3: 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>
Major funds:		
General fund	\$ 6,881	
Other major funds		
School food service fund	15,000	
Summer feeding 2005		15,000
Other governmental funds		6,881
Total Funds	<u>\$ 21,881</u>	<u>21,881</u>

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

**OKOLONA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2005**

**Note 3: Interfund Transactions and Balances (Continued)**

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General fund	\$ 582,701	751,743
Other major funds		
School food service fund	1,394	12,500
Summer feeding 2005		1,411
Building improvement & transportation	125,000	
Other governmental funds	134,215	77,656
Total	\$ <u>843,310</u>	<u>843,310</u>

The principal purpose of interfund transfers was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 4: Capital Assets**

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

	Balance 7/1/2004	Additions	Retirements	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital assets</u>					
Land	\$ 77,760				77,760
Total non-depreciable capital assets	<u>77,760</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>77,760</u>
<u>Depreciable capital assets</u>					
Buildings	3,963,417				3,963,417
Mobile equipment	417,475		(17,500)		399,975
Furniture and equipment	287,243	10,500			297,743
Total depreciable assets	<u>4,668,135</u>	<u>10,500</u>	<u>(17,500)</u>	<u>-0-</u>	<u>4,661,135</u>
<u>Less accumulated depreciation for:</u>					
Buildings	1,584,057	54,139			1,638,196
Mobile equipment	298,434	16,518	(15,750)	(24,294)	274,908
Furniture and equipment	223,395	35,847			259,242
Total accumulated depreciation	<u>2,105,886</u>	<u>106,504</u>	<u>(15,750)</u>	<u>(24,294)</u>	<u>2,172,346</u>
Total depreciable capital assets, net	<u>2,562,249</u>	<u>(96,004)</u>	<u>(1,750)</u>	<u>24,294</u>	<u>2,488,789</u>
Governmental activities capital assets, net	<u>\$ 2,640,009</u>	<u>(96,004)</u>	<u>(1,750)</u>	<u>24,294</u>	<u>2,566,549</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 59,296
Support services	39,200
Non-instructional	8,008
Total depreciation expense	<u>\$ 106,504</u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 4: Capital Assets (Continued)**

Adjustments:

Depreciation for mobile equipment was calculated incorrectly in previous years.

**Note 5: Long-term Liabilities**

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

	Balance 7/1/2004	Additions	Reductions	Adjustments	Balance 6/30/2005	Amounts due within one year
A. Limited obligation bonds payable	\$ 1,625,000		85,000		1,540,000	90,000
B. Three mill note payable	122,312		28,481		93,831	29,814
C. Shortfall notes payable	32,406		32,406		-	
D. Obligations under capital lease	80,101		26,779		53,322	18,950
E. Other loans payable			8,670	97,619	88,949	18,574
F. Compensated absences payable	44,296		2,617		41,679	
<b>Total</b>	<b>\$ 1,904,115</b>	<b>-0-</b>	<b>183,953</b>	<b>97,619</b>	<b>1,817,781</b>	<b>157,338</b>

**A. 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, Series 1998	Varies	6/1/98	6/1/18	\$ 1,950,000	\$ 1,540,000
<b>Total</b>				<b>\$ 1,950,000</b>	<b>\$ 1,540,000</b>

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Long-term Liabilities (Continued)**

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 90,000	71,775	161,775
2007	95,000	66,645	161,645
2008	100,000	62,465	162,465
2009	100,000	57,965	157,965
2010	105,000	53,465	158,465
2011-2015	610,000	190,570	800,570
2016-2020	440,000	42,065	482,065
Total	\$ 1,540,000	544,950	2,084,950

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

**B. Three mill note payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
EEF Buildings & Buses limited tax notes	4.79%	5/1/98	4/18/08	\$ 267,640	\$ 93,831
Total				\$ 267,640	\$ 93,831

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Long-term Liabilities (Continued)**

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 29,814	4,494	34,308
2007	31,242	3,066	34,308
2008	32,775	1,569	34,344
Total	\$ 93,831	9,129	102,960

This debt will be retired from the EEF Buildings & Buses fund.

**C. Shortfall notes payable**

This debt was repaid in full during the fiscal year.

**D. Obligations under capital leases.**

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Lease property under this lease is composed of two buses and a copier.

The various options available to the lessee for this lease are as follows:

1. Prepayment option
2. Purchase option

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

Year Ending June 30,	Principal	Interest and Maintenance Charges	Total
2006	\$ 18,574	2,977	21,552
2007	19,236	2,316	21,552
2008	19,921	1,631	21,552
2009	20,630	922	21,552
2010	10,589	187	10,776
Total	\$ 88,949	8,033	96,982

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Long-term Liabilities (Continued)**

This debt will be retired from the district maintenance fund.

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.

**E. Other loans payable**

The school district has issued debt instruments granted under the authority of the Asbestos School Hazard Abatement Act of 1984, 20 U.S.C. 4011 and Sections 37-59-101 and 37-59-103, Miss. Code Ann. (1972).

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>
Asbestos Abatement Note	0.00%	7/28/86	7/28/06	\$ 296,927	\$ 8,248
Emergency Repair Loan	4.00%	1/31/02	1/31/09	75,000	45,074
Total				<u>\$ 371,927</u>	<u>\$ 53,322</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>
2006	\$ 18,950	1,795	20,745
2007	11,130	1,367	12,497
2008	11,575	922	12,497
2009	11,667	458	12,125
Total	<u>\$ 53,322</u>	<u>4,542</u>	<u>57,864</u>

This debt will be retired from the District Maintenance and Building Repairs and Renovations Debt funds.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Long-term Liabilities (Continued)**

F. 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.

**Note 6: Defined Benefit Pension Plan**

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 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 \$380,784, \$351,237 and \$315,395, respectively, which equaled the required contributions for each year.

**Note 7: Other Commitments**

Operating leases:

The school district has an operating lease for a football field.

Lease expenditures for the year ended June 30, 2005, amounted to \$4,000. Future lease payments for this lease are as follows:

Year Ending June 30,	Amount
2006	\$ 4,000
2007	4,000
Total	\$ <u>8,000</u>

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 8: Deficit Fund Balance of Individual Funds**

The Summer Feeding 2005 fund has a deficit fund balance in the amount of \$12,706. The deficit fund balance is not in violation of state law. This deficit could have been eliminated with a transfer from the district maintenance fund (General Fund).

**Note 9: Prior Period Adjustments/Exhibits**

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
1. To correct a prior year error in recording an asset or liability.	\$ (73,325)
2. To record prior year revenue	49,399
3. To record prior year expense	<u>(40)</u>
Total	<u><u>(23,966)</u></u>

Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major fund:</u>	<u>Explanation</u>	
General Fund	To record prior year revenue	6,703
MAEP Bond Issue Fund	To record prior year expense	(40)
Other Governmental Funds	To record prior year revenue	<u>42,696</u>
	Total	<u><u>\$ 49,359</u></u>

**Note 10: Subsequent Events**

Subsequent to June 30, 2005, Okolona School District issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>
10/31/2005	4.85%	108,602	Capital lease
10/05/2005	3.70%	350,000	Three mill note payable

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 11: Risk Management**

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Participation in Public Entity Risk Pool**

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 920,020	994,651	998,286	74,631	3,635
State sources	3,815,065	3,694,133	3,674,710	(120,932)	(19,423)
Federal sources	29,917	43,702	56,422	13,785	12,720
Total Revenues	<u>4,765,002</u>	<u>4,732,486</u>	<u>4,729,418</u>	<u>(32,516)</u>	<u>(3,068)</u>
<b>Expenditures:</b>					
Instruction	3,076,789	3,045,417	3,043,746	31,372	1,671
Support services	1,684,780	1,686,068	1,684,901	(1,288)	1,167
Facilities acquisition and construction	35,000			35,000	-0-
<b>Debt service:</b>					
Principal	26,790	25,166	25,166	1,624	-0-
Interest	1,082	2,106	2,106	(1,024)	-0-
Total Expenditures	<u>4,824,441</u>	<u>4,758,757</u>	<u>4,755,919</u>	<u>65,684</u>	<u>2,838</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	<u>(59,439)</u>	<u>(26,271)</u>	<u>(26,501)</u>	<u>33,168</u>	<u>(230)</u>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries		8,352	8,352	8,352	-0-
Sale of other property	500	735	735	235	-0-
Operating transfers in	567,819	582,701	582,701	14,882	-0-
Operating transfers out	(641,997)	(751,743)	(751,743)	(109,746)	-0-
Other financing uses	(2,764)			2,764	-0-
Total Other Financing Sources (Uses)	<u>(76,442)</u>	<u>(159,955)</u>	<u>(159,955)</u>	<u>(83,513)</u>	<u>-0-</u>
<b>Net Change in Fund Balances</b>					
	<u>(135,881)</u>	<u>(186,226)</u>	<u>(186,456)</u>	<u>(50,345)</u>	<u>(230)</u>
<b>Fund Balances:</b>					
July 1, 2004	458,300	544,466	540,831	86,166	(3,635)
Prior period adjustments (Note 9)			6,703	-0-	6,703
July 1, 2004, as restated	<u>458,300</u>	<u>544,466</u>	<u>547,534</u>	<u>86,166</u>	<u>3,068</u>
June 30, 2005	<u>\$ 322,419</u>	<u>358,240</u>	<u>361,078</u>	<u>35,821</u>	<u>2,838</u>

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

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE SCHOOL FOOD SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 44,500	37,297	37,297	(7,203)	-0-
State sources	2,500	3,013	3,013	513	-0-
Federal sources	428,000	460,801	372,200	32,801	(88,601)
Total Revenues	<u>475,000</u>	<u>501,111</u>	<u>412,510</u>	<u>26,111</u>	<u>(88,601)</u>
<b>Expenditures:</b>					
Support services	67,211	63,380	63,380	3,831	-0-
Noninstructional services	400,186	358,105	338,762	42,081	19,343
Total Expenditures	<u>467,397</u>	<u>421,485</u>	<u>402,142</u>	<u>45,912</u>	<u>19,343</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,603</u>	<u>79,626</u>	<u>10,368</u>	<u>72,023</u>	<u>(69,258)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	2,000	1,394	1,394	(606)	-0-
Operating transfers out	(10,000)	(12,500)	(12,500)	(2,500)	-0-
Total Other Financing Sources (Uses)	<u>(8,000)</u>	<u>(11,106)</u>	<u>(11,106)</u>	<u>(3,106)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>(397)</u>	<u>68,520</u>	<u>(738)</u>	<u>68,917</u>	<u>(69,258)</u>
<b>Fund Balances:</b>					
July 1, 2004	<u>96,038</u>	<u>109,234</u>	<u>109,234</u>	<u>13,196</u>	<u>-0-</u>
Decrease in reserve for inventory			(8,132)	-0-	(8,132)
June 30, 2005	<u>\$ 95,641</u>	<u>177,754</u>	<u>100,364</u>	<u>82,113</u>	<u>(77,390)</u>

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

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE SUMMER FEEDING 2005 FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	15,176		15,176	(15,176)
Total Revenues	<u>-0-</u>	<u>15,176</u>	<u>-0-</u>	<u>15,176</u>	<u>(15,176)</u>
Expenditures:					
Support services		839	839	(839)	-0-
Noninstructional services		10,956	10,456	(10,956)	500
Total Expenditures	<u>-0-</u>	<u>11,795</u>	<u>11,295</u>	<u>(11,795)</u>	<u>500</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-0-</u>	<u>3,381</u>	<u>(11,295)</u>	<u>3,381</u>	<u>(14,676)</u>
Other Financing Sources (Uses):					
Operating transfers out		(1,411)	(1,411)	(1,411)	-0-
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>(1,411)</u>	<u>(1,411)</u>	<u>(1,411)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>-0-</u>	<u>1,970</u>	<u>(12,706)</u>	<u>1,970</u>	<u>(14,676)</u>
Fund Balances:					
July 1, 2004	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Increase in reserve for inventory	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2005	\$ <u>-0-</u>	<u>1,970</u>	<u>(12,706)</u>	<u>1,970</u>	<u>(14,676)</u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2005**

**Budgetary Comparison Schedules**

**Note 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.

**Note 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.

**SUPPLEMENTAL INFORMATION**

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 23,013
Child nutrition cluster:		
School breakfast program	10.553	131,292
National school lunch program	10.555	232,851
Summer food service program for children	10.559	23
<b>Total</b>		<b>364,166</b>
<b>Total U.S. Department of Agriculture</b>		<b>387,179</b>
<b>U.S. Department of Education</b>		
Passed through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	365,734
Vocational education - basic grants to states	84.048	22,226
Safe and drug-free schools and communities - state grants	84.186	4,577
Eisenhower professional development state grants	84.281	67,846
Twenty-first century community learning centers	84.287	89,482
State grants for innovative programs	84.298	619
Education technology state grants	84.318	197,059
Teacher quality enhancement grant	84.336	7,800
Transition to teaching	84.350	1,440
Reading first state grants	84.357	236,050
Comprehensive school reform demonstration	84.332	56,318
Improving teacher quality state grants	84.367	18,594
Rural education	84.358	29,323
<b>Total</b>		<b>1,097,068</b>
Special education cluster:		
Special education - grants to states	84.027	187,266
<b>Total</b>		<b>187,266</b>
<b>Total passed through Mississippi Department of Education</b>		<b>1,284,334</b>
<b>Total U.S. Department of Education</b>		<b>1,284,334</b>
<b>Corporation for National and Community Service</b>		
Passed-through the Mississippi Department of Education		
Learn and serve America - school and community based programs	94.004	7,478
<b>Total Corporation for National and Community Service</b>		<b>7,478</b>
<b>Total for All Federal Awards</b>		<b>\$ 1,678,991</b>

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The balance outstanding at June 30, 2005, of the loan received in a previous fiscal year under former CFDA #66.702 for asbestos removal was \$8,248.

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 5,015,194	3,548,418	691,777	774,999
Other	<u>1,968,689</u>	<u>601,698</u>	<u>68,086</u>	<u>1,298,905</u>
Total	\$ <u>6,983,883</u>	<u>4,150,116</u>	<u>759,863</u>	<u>2,073,904</u>
Total number of students	841			
Cost per student	\$ <u>8,304</u>	<u>4,935</u>	<u>904</u>	<u>2,466</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).

Other - includes all expenditure functions not included in Instruction or Administrative

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

# J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET  
POST OFFICE BOX 1280  
TUPELO, MISSISSIPPI 38802

(662) 842-2123  
FACSIMILE (662) 841-6809  
E-MAIL: jev@jevance.com

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

Superintendent and School Board  
Okolona School District

We have audited the financial statements of the Okolona School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

October 11, 2005  
Tupelo, Mississippi

*J E Vance & Company*

**J.E. VANCE & COMPANY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET  
POST OFFICE BOX 1280  
TUPELO, MISSISSIPPI 38802

(662) 842-2123  
FACSIMILE (662) 841-6809  
E-MAIL: jev@jevance.com

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

Superintendent and School Board  
Okolona School District

Compliance

We have audited the compliance of the Okolona 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 school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

October 11, 2005  
Tupelo, Mississippi

Handwritten signature in cursive script that reads "J. E. Vance + Company".

**J.E. VANCE & COMPANY, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

825 JEFFERSON STREET  
POST OFFICE BOX 1280  
TUPELO, MISSISSIPPI 38802

(662) 842-2123  
FACSIMILE (662) 841-6809  
E-MAIL: jev@jevance.com

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

Superintendent and School Board  
Okolona School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona School District as of and for the year ended June 30, 2005, which collectively comprise Okolona School District's basic financial statements and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$11,417 of classroom supply funds carried over from previous years.

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

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

October 11, 2005  
Tupelo, Mississippi



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**OKOLONA 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 auditors' report issued on the general purpose financial statements:        | Unqualified |
| 2. Material noncompliance relating to the financial statements?                        | No          |
| 3. Internal control over financial reporting:  |             |
| a. Material weakness(es) identified?   | No          |
| b. Reportable conditions identified that are not considered to be material weaknesses? | No          |

**Federal Awards:**

- |  |             |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs:           | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weakness(es) identified?   | No          |
| b. Reportable conditions identified that are not considered to be material weaknesses? | No          |
| 6. Any audit findings reported as required by section __.510(a) of OMB Circular A-133? | No          |
| 7. Federal programs identified as major programs:                                      |             |
| a. Cluster: Child Nutrition  |             |
| CFDA #10.553   |             |
| CFDA #10.555   |             |
| CFDA #10.559   |             |
| b. Title I – grant to local educational agencies                                       |             |
| CFDA #84.010   |             |

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Section 1: Summary of Auditor's Results (Continued)**

- |  |            |
|--|------------|
| 8. The dollar threshold used to distinguish between type A and type B programs:  | \$300,000. |
| 9. Auditee qualified as a low-risk auditee?  | Yes        |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No         |

**Section 2: Financial Statement Findings**

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

**Section 3: Federal Award Findings and Questioned Costs**

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