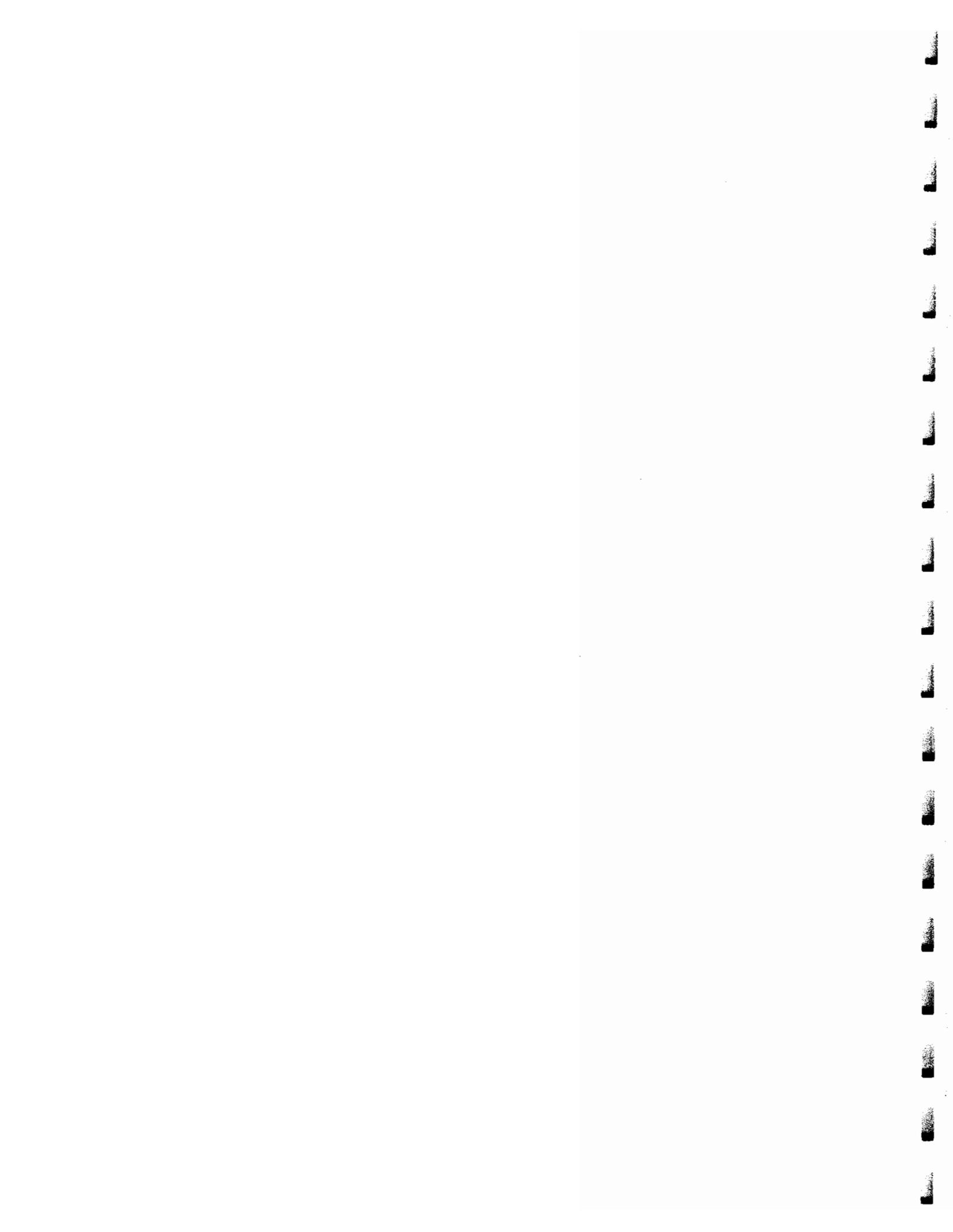




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INDIANOLA SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2006

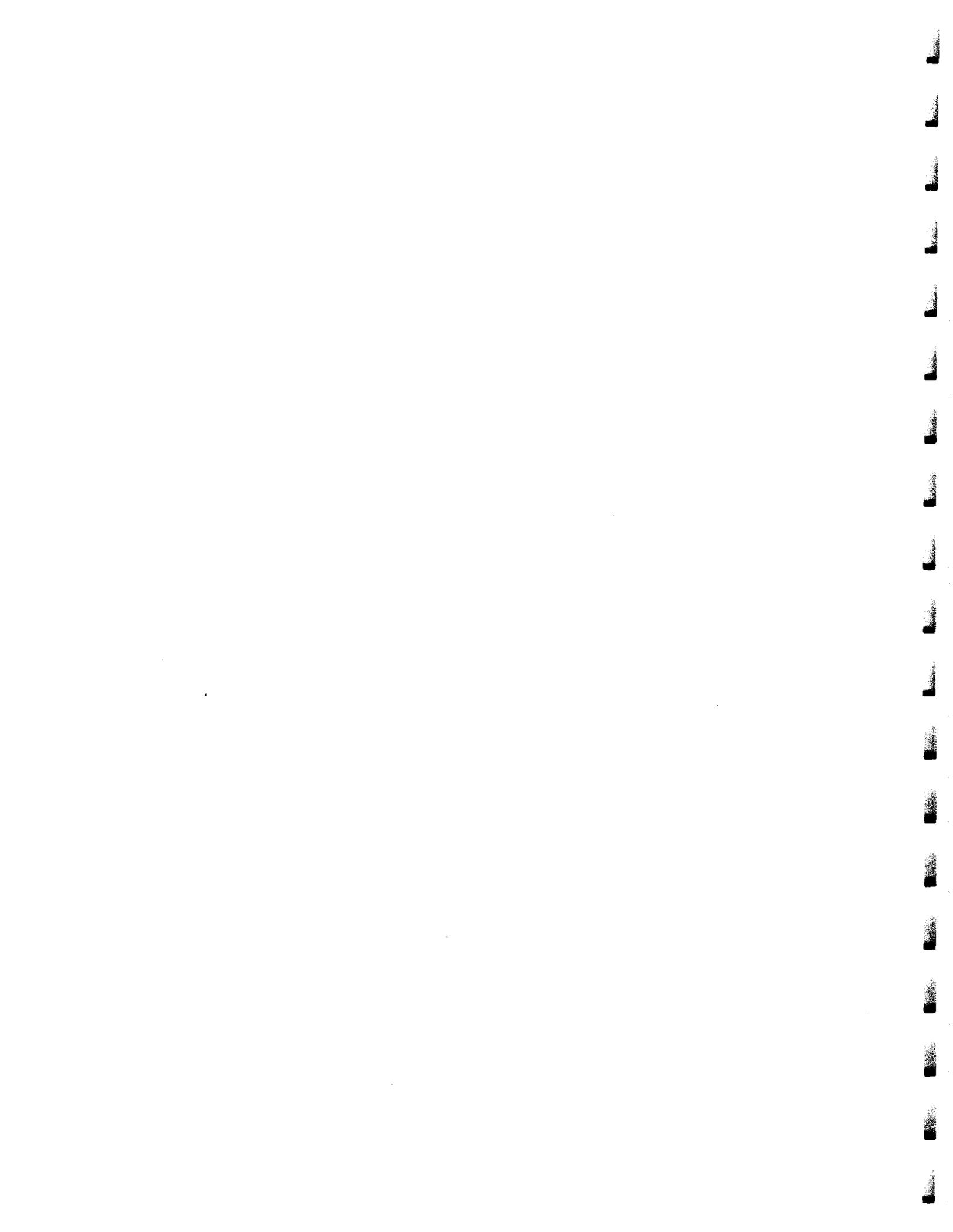
Robert Britt, CPA, P. A.
Clarksdale, Mississippi



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, 2006, 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, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 17, 2008, 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 12 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Indianola 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.



June 17, 2008

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, 2006

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

FINANCIAL HIGHLIGHTS

Total net assets decreased by \$706,074, which represents a 9.2% decrease from fiscal year 2005.

General revenues account for \$13,542,442 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$5,916,257 or 30% of total revenues.

The District had \$20,164,773 in expenses; only \$5,916,257 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$13,542,442 plus fund balances carried over from prior years were adequate to provide for these programs.

Among major funds, the General Fund had \$13,196,027 in revenues and \$ 14,094,512 in expenditures. The General Fund's fund balance decreased \$857,644 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 \$337,460.

Long-term debt decreased by \$743,867.

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 and Changes in Fiduciary Net Assets on pages 20 and 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 22-33 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 36-40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 42-43 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 \$6,491,868 as of June 30, 2006.

The largest portion of the District’s net assets (62.6%) is 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 next largest portion of the District’s net assets (33.1%) is unrestricted net assets. These unrestricted assets are available for any legal purpose at the discretion of the board.

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

The following table presents a summary of the District’s net assets for the fiscal year ended June 30, 2006 compared to the same period in 2005.

	<u>Governmental Activities</u>		Percentage Change
	2006	2005	
Current assets	2,872,955	4,923,891	-41.65%
Capital assets, net	<u>10,581,796</u>	<u>10,919,256</u>	<u>-3.09%</u>
Total assets	<u>13,454,751</u>	<u>15,843,147</u>	<u>-15.08%</u>
Current liabilities	316,555	1,252,538	-74.73%
Long-term debt outstanding	<u>6,630,186</u>	<u>7,374,053</u>	<u>-10.09%</u>
Total liabilities	<u>8,626,591</u>	<u>8,626,591</u>	<u>0.00%</u>
Net assets:			
Invested in capital assets, net of related debt	4,066,796	3,639,256	-11.75%
Restricted	294,939	593,225	-50.28%
Unrestricted	<u>2,146,275</u>	<u>2,984,075</u>	<u>-28.08%</u>
Total net assets	<u>6,508,010</u>	<u>7,216,556</u>	<u>-9.82%</u>

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

The principal retirement of \$ 765,000 of long-term debt.

Changes in net assets. The District’s total revenues for the fiscal year ended June 30, 2006, were \$19,458,699. The total cost of all programs and services was \$20,164,773. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 compared to the same period in 2005.

	Governmental Activities		Percent Change
	2006	2005	
Revenues:			
Program revenues			
Charges for services	625,341	624,450	0.14%
Operating grants and contributions	5,290,916	4,864,126	8.77%
General Revenues			
Property Taxes	2,340,337	2,292,582	2.08%
Grants and contributions not restricted	10,940,837	10,620,671	3.01%
Other	261,268	174,431	49.78%
Total revenues	19,458,699	18,576,260	4.75%
Expenses:			
Instruction	11,745,445	10,770,577	9.05%
Support services	6,619,263	6,138,930	7.82%
Non-instructional	1,479,103	1,474,198	0.33%
Sixteenth section	9,218	0	100.00%
Interest on long-term obligations	311,744	347,608	-10.32%
Total Expenses	20,164,773	18,731,313	7.65%
Decrease in net assets	(706,074)	(155,053)	355.38%
Net assets July 1	7,216,556	7,371,609	-2.10%
Prior Period adjustment	(18,614)		
Net assets July 1, as restated	7,197,942	7,371,609	-2.36%
Net assets June 30	6,491,868	7,216,556	-10.04%

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
	2006	2005		2006	2005	
Instruction	11,745,445	10,770,577	9.05%	(9,063,856)	(8,449,971)	7.26%
Support services	6,619,263	6,138,930	7.82%	(5,279,567)	(4,849,256)	8.87%
Non-instructional	1,479,103	1,474,198	0.33%	(71,807)	(83,577)	-14.08%
Sixteenth section	9,218	0	100.00%	(9,218)	0	100.00%
Interest on long-term obligatio	311,744	347,608	-10.32%	175,932	140,067	25.61%
	20,164,773	18,731,313	7.65%	(14,248,516)	(13,242,737)	7.59%

Net cost of governmental activities \$14,248,516, was financed by general revenue, which is made up of primarily property taxes \$2,340,337, state revenue \$10,869,083, federal revenue \$71,754, and sixteenth section revenue \$87,595.

Investment earnings accounted for \$23,673 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 \$2,613,117, a decrease of \$1,117,140. \$2,248,775 or 86% 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 \$364,342 or 14% 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 \$ 857,644 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 \$261,968 due primarily to the retirement of long term debt and purchase of new cafeteria equipment

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, 2006, the District's total capital assets were \$16,539,983, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents a increase of \$30,639 from the previous year due to purchase of cafeteria equipment. Total accumulated depreciation as of June 30, 2006, was \$5,958,187 and total depreciation expense for the year was \$368,099, resulting in total net assets of \$10,581,796.

	Capital Assets Net of Depreciation		Percentage
	2006	2005	Change
Land	351,254	351,254	0.00%
Buildings	9,840,334	10,119,886	-2.76%
Improvements other than buildings	30,712	38,151	-19.50%
Mobile equipment	294,414	331,336	-11.14%
Furniture and equipment	65,082	78,629	-17.23%
Total	<u>10,581,796</u>	<u>10,919,256</u>	<u>-3.09%</u>

Additional information of the District's capital assets can be found in Note 5 on page 29 of this report.

Debt Administration. At June 30, 2006, the District had \$6,630,186 in general obligation bonds and other long-term debt outstanding, of which \$795,000 is due within one year.

The District maintains a AA bond rating.

	Outstanding Debt		Percentage
	<u>2006</u>	<u>2005</u>	<u>Change</u>
General obligation bonds payable	\$1,370,000	\$1,815,000	-24.52%
Limited obligation bonds payable	\$4,365,000	\$4,630,000	-5.72%
Three mill notes payable	\$780,000	\$835,000	-6.59%
Compensated absences payable	\$115,186	\$94,053	22.47%
Total	<u>\$6,630,186</u>	<u>\$7,374,053</u>	<u>-10.09%</u>

Additional information of the District's long-term debt can be found in Note 6 on pages 29-31 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 17 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

BASIC FINANCIAL STATEMENTS

INDIANOLA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 2,108,560
Investments	33,461
Due from other governments	521,477
Other receivables, net	
Due from other funds	21,979
Inventories and prepaid items	12,686
Other receivables	132,628
Restricted assets	26,022
Capital assets non-depreciable	
Land	351,254
Capital assets net of accumulated depreciation	
Buildings	9,840,334
Improvements other than buildings	30,712
Mobile equipment	294,414
Furniture and equipment	65,082
Total Assets	\$ <u>13,438,609</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 10,902
Interest payable on long-term liabilities	72,859
Deferred revenue	232,794
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	795,000
Non-capital related liabilities	
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	5,720,000
Non-capital related liabilities	115,186
Total Liabilities	\$ <u>6,946,741</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 4,066,796
Restricted net assets:	
Expendable:	
Debt service	204,440
Unemployment benefits	48,335
Nonexpendable	
Sixteenth section	26,022
Unrestricted	2,146,275
Total Net Assets	\$ <u>6,491,868</u>

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

INDIANOLA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Assets
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 11,745,445	480,970	2,200,619	(9,063,856)
Support services	6,619,263		1,339,696	(5,279,567)
Non-instructional	1,479,103	144,371	1,262,925	(71,807)
16th Section	9,218			(9,218)
Interest on long-term liabilities	311,744		487,676	175,932
Total governmental activities	\$ <u>20,164,773</u>	<u>625,341</u>	<u>5,290,916</u>	<u>(14,248,516)</u>
Taxes:				
				1,857,907
				482,430
Unrestricted grants and contributions:				
				10,869,083
				71,754
				23,673
				87,595
				150,000
				<u>13,542,442</u>
				<u>(706,074)</u>
				7,216,556
				(18,614)
				<u>7,197,942</u>
				<u>\$ 6,491,868</u>

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

INDIANOLA SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	Food Service Fund	Title VI Fund	Title II Fund	Other Governmental Funds		
ASSETS							
Cash and cash equivalents (Note 3)	\$ 1,143,583	441,319	54,100	72,936	422,644		2,134,582
Investments					33,461		33,461
Due from other governments	131,476				390,001		521,477
Due from other funds (Note 4)	70,699	22,060			86,364		179,123
Other receivables	132,628				0		132,628
Inventories and prepaid items		12,686			0		12,686
Total Assets	\$ 1,478,386	476,065	54,100	72,936	932,470		3,013,957
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$ 5,439				5,463		10,902
Due to other funds (Note 4)	134,010				23,134		157,144
Deferred Revenue			54,100	72,936	105,758		232,794
Total Liabilities	139,449	0	54,100	72,936	134,355		400,840
Fund Balances:							
Reserved for:							
Advances							
Inventory		12,686			0		12,686
Debt Service					277,299		277,299
Unemployment benefits					48,335		48,335
Permanent fund purposes					26,022		26,022
Unreserved:							
Undesignated, reported in:							
General fund	1,338,937						1,338,937
Special revenue funds		463,379	0	0	446,459		909,838
Total Fund Balances	1,338,937	476,065	0	0	798,115		2,613,117
Total Liabilities and Fund Balance	\$ 1,478,386	476,065	54,100	72,936	932,470		3,013,957

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, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 2,613,117
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 \$ 5,958,187. (Note 5)	10,581,796
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(6,630,186)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	<u>(72,859)</u>
Total Net Assets - Governmental Activities	\$ <u>6,491,868</u>

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

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

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Food Service Fund	Title VI Fund	Title II Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 2,255,190	190,711			530,822	2,976,723
State sources	10,869,083	8,307			1,018,274	11,895,664
Federal sources	71,754	1,273,705	22,076	226,164	2,755,018	4,348,717
Sixteenth section sources					87,595	87,595
Total Revenues	13,196,027	1,472,723	22,076	226,164	4,391,709	19,308,699
Expenditures:						
Instruction	8,839,549		20,101	201,516	2,387,100	11,448,266
Support services	5,234,057	95,287	1,958	19,648	1,218,789	6,569,739
Non instructional services	20,906	1,367,844	17		76,335	1,465,102
16th Section					9,218	9,218
Debt service:						
Principal					765,000	765,000
Interest					318,514	318,514
Total Expenditures	14,094,512	1,463,131	22,076	221,164	4,774,956	20,575,839
Excess (Deficiency) of Revenues Over Expenditures	(898,485)	9,592	0	5,000	(383,247)	(1,267,140)
Other Financing Sources (Uses):						
Insurance loss recoveries	150,000				0	150,000
Operating transfers in (Note 4)	531,120				640,280	1,171,400
Operating transfers out (Note 4)	(640,279)	(50,014)		(5,000)	(476,107)	(1,171,400)
Total Other Financing Sources (Uses)	40,841	(50,014)	0	(5,000)	164,173	150,000
Net Change in Fund Balances	(857,644)	(40,422)	0	0	(219,074)	(1,117,140)
Fund Balances:						
July 1, 2005	2,196,581	518,598	0	0	1,035,803	3,750,982
Prior period adjustments					(18,614)	(18,614)
July 1, 2005, as restated	2,196,581	518,598	0	0	1,017,189	3,732,368
Decrease in reserve for inventory		(2,111)			0	(2,111)
June 30, 2006	\$ 1,338,937	476,065	0	0	798,115	2,613,117

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (1,117,140)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$30,639 and the depreciation expense amounted to \$368,099. (Note 5)	(337,460)
2. Increase in Compensated absences is not recorded in the governmental funds, but increases expense in the statement of activity. (Note 6)	(21,133)
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)	6,770
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)	765,000
5. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are increased in the statement of activity.	<u>(2,111)</u>
Change in Net Assets of Governmental Activities	\$ <u>(706,074)</u>

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

INDIANOLA SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 16,142	\$ 733,084
Due from other funds (Note 4)		3,721
Due from student clubs	\$ _____	7,947
Total Assets	<u>16,142</u>	<u>\$ 744,752</u>
Liabilities		
Accounts payable and accrued liabilities		719,051
Due to other funds (Note 4)		25,701
Total Liabilities	<u>\$ 0</u>	<u>\$ 744,752</u>
Net Assets		
Restricted net assets:		
Expendable:		
Scholarships	<u>16,142</u>	
Total Net Assets	<u>\$ 16,142</u>	<u>\$ 0</u>

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

INDIANOLA SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

Exhibit F

	Private Private-Purpose Trust Funds
Additions	
Donations	\$ <u>12,628</u>
Total Additions	<u>12,628</u>
Deductions	
Scholarships awarded	<u>15,100</u>
Total Deductions	<u>15,100</u>
Change in Net Assets	<u>(2,472)</u>
Net Assets	
July 1, 2005	0
Prior period adjustments	<u>18,614</u>
July 1, 2005, as restated	<u>18,614</u>
June 30, 2006	\$ <u><u>16,142</u></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, 2006

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the 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, 2006

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.

Food Service Fund - This is the school fund to provide nutritious meals to children and employees. Major funding is from USDA reimbursements for free and reduced meals.

Title VI Fund - This is a federal fund which provides financial assistance to rural districts to carry out activities to help improve the quality of teaching and learning in their schools.

Title II Fund - This is a federal fund which provides to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

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, 2003* issued by the U.S. Department of Education.

INDIANOLA SCHOOL DISTRICT

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

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 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 three 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 three 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.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	\$50,000	40 years
Buildings	\$25,000	20 years
Improvements other than buildings	\$25,000	20 years

INDIANOLA SCHOOL DISTRICT

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

Mobile equipment	\$ 5,000	5-10 years
Furniture and equipment	\$ 5,000	3-7 years
Leased property under capital leases	\$ *	*

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

J. Long-term liabilities.

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

INDIANOLA SCHOOL DISTRICT

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

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 by donors and available only for scholarships to students to attend institutions of higher learning.

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 Indianola School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

INDIANOLA SCHOOL DISTRICT

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

(3) Cash and Cash Equivalents, and Investments

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district deposits in financial institutions are 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 a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,134,582 and \$749,246, respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$2,108,560 and Restricted Assets \$26,022. The Restricted assets of \$26,022 represents the cash balance of the 16th Section Principal Fund (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$3,047,293.

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, 2006, none of the district's bank balance of \$3,047,293 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
CMA Governmental Securities Fund Money Market	Less than 1 year	<u>33461</u>	None
Total Investments		<u><u>33461</u></u>	

INDIANOLA SCHOOL DISTRICT

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

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 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, 2006, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district did not have any investments requiring disclosure.

(4) Interfund Transactions and Balances.

A. Due From/To Other Funds:

Due From/To Other Funds:	<u>Due From</u>	<u>Due to</u>
Governmental Funds		
General Fund	70,699	134,010
Food Service Fund	22,060	
Other Governmental Funds	86,364	23,134
Fiduciary Funds	<u>3,721</u>	<u>25,700</u>
 Total	 <u>182,844</u>	 <u>182,844</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.

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	531,120	640,279
Food Service Fund		50,014
Title II Fund		5,000
Other Governmental Funds	<u>640,280</u>	<u>476,107</u>
 Total	 <u>\$1,171,400</u>	 <u>\$1,171,400</u>

Transfers were made from federal funds for indirect costs. 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. 16th Section Interest funds were transferred by board order to the general fund for operating purposes.

(5) Capital Assets.

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

INDIANOLA SCHOOL DISTRICT

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

	Balance 07/01/2005	Additions	Deletions	Balance 06/30/2006
Land	351,254			351,254
Total Non Depreciated Assets	<u>351,254</u>	<u>0</u>	<u>0</u>	<u>351,254</u>
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	509,530	30,639		540,169
Total Depreciable Assets	<u>16,158,090</u>	<u>30,639</u>	<u>0</u>	<u>16,188,729</u>
Less accumulated depreciation for:				
Buildings	4,286,500	279,552		4,566,052
Improvements other than buildings	152,604	7,439		160,043
Mobile equipment	720,083	36,922		757,005
Furniture and equipment	430,901	44,186		475,087
Total accumulated depreciation	<u>5,590,088</u>	<u>368,099</u>	<u>0</u>	<u>5,958,187</u>
Net depreciable assets	<u>10,568,002</u>	<u>(337,460)</u>	<u>0</u>	<u>10,230,542</u>
Governmental activities capital assets net	<u>10,919,256</u>	<u>(337,460)</u>	<u>0</u>	<u>10,581,796</u>
Depreciation was charged to the following functions:				<u>Amount</u>
Instruction				276,046
Support services				80,163
Non-instructional				<u>11,890</u>
Total depreciation expense				<u>368,099</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:

	Balance 07/01/2005	Additions	Reductions	Balance 06/30/2006	Due within one year
A. General obligation bonds payable	\$1,815,000		\$445,000	\$1,370,000	\$455,000
B. Limited obligation bonds payable	4,630,000		265,000	4,365,000	280,000
C. Three mill notes payable	835,000		55,000	780,000	60,000
D. Compensated absences payable	94,053	21,133		115,186	
Total	<u>\$7,374,053</u>	<u>\$21,133</u>	<u>\$765,000</u>	<u>\$6,630,186</u>	<u>\$795,000</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:

Interest	Issue	Maturity	Amount	Amount
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INDIANOLA SCHOOL DISTRICT

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

<u>Description</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
General Obligation Refunding Bonds Series 2003	2%	3/1/03	3/1/09	\$2,660,000	\$1,370,000

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

Year Ending June 30,	Principal	Interest	Total
2007	455,000	38,825	493,825
2008	465,000	27,450	492,450
2009	450,000	13,500	463,500
Total	<u>1,370,000</u>	<u>79,775</u>	<u>1,449,775</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, 2006, the amount outstanding bonded indebtedness was equal to 3% of property assessments as of September 30, 2005.

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement Bonds, Series 1998	Variable	3/1/98	3/1/18	\$5,810,000	\$4,365,000

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

Year Ending June 30,	Principal	Interest	Total
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	335,000	150,170	485,170
2012-2016	1,925,000	497,800	2,422,800
2017-2020	905,000	65,075	970,075
Total	<u>4,365,000</u>	<u>1,455,805</u>	<u>5,820,805</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					

INDIANOLA SCHOOL DISTRICT

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

Limited Tax Notes, Series 1998 6.00% 8/1/97 8/1/15 \$1,200,000 \$780,000

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

Year Ending June 30.	Principal	Intereat	Total
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	75,000	29,859	104,859
2012-2016	<u>450,000</u>	<u>72,969</u>	<u>522,969</u>
Total	<u>780,000</u>	<u>263,763</u>	<u>1,043,763</u>

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

D. Compensated absences payable.

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

(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.

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 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$ 1,031,642, \$1,017,930 and \$931,641, 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.

INDIANOLA SCHOOL DISTRICT

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

Year Ending June 30,

2007	53,064
2008	34,190
2009	<u>31,733</u>

Total 118,987

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustment is as follows:

Exhibit B - Statement of Activities

Explanation

Amount of the net assets of the Scholarship Fund previously recorded as a Special Revenue Fund was reclassified to a Private Purpose Trust Fund	(\$18,614)
Net Assets July 1 as previously reported	<u>\$7,216,566</u>
Net Assets July 1 as restated	<u>\$7,197,942</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Funds</u>	<u>Explanation</u>	
Other governmental funds	Amount of the fund balance of the Scholarship Fund previously recorded as a Special Revenue Fund was reclassified to a Private Purpose Trust Fund	(\$18,614)
Fund Balance July 1 as previously reported		<u>\$3,750,982</u>
Fund Balance July 1 as restated		<u>\$3,732,368</u>

Exhibit F - Statement of Changes in Fiduciary Net Assets

Amount of the net assets of the Scholarship Fund previously recorded as a Special Revenue Fund was reclassified to a Private Purpose Trust Fund	\$18,614
Net Assets July 1 as previously reported	<u>\$ 0</u>
Net Assets July 1 as restated	<u>\$18,614</u>

(10) Litigation

The school district at June 30, 2006, 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 district.

(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

INDIANOLA SCHOOL DISTRICT

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

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

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,350,000	2,300,504	2,255,190	(49,496)	(45,314)
State sources	10,750,000	10,869,083	10,869,083	119,083	0
Federal sources	0	80	71,754	80	71,674
Total Revenues	13,100,000	13,169,667	13,196,027	69,667	26,360
Expenditures:					
Instruction	8,650,000	8,829,554	8,839,549	(179,554)	(9,995)
Support services	4,975,000	5,162,287	5,234,057	(187,287)	(71,770)
Non instructional services	25,000	20,906	20,906	4,094	0
Total Expenditures	13,650,000	14,012,747	14,094,512	(362,747)	(81,765)
Excess (Deficiency) of Revenues Over Expenditures	(550,000)	(843,080)	(898,485)	(293,080)	(55,405)
Other Financing Sources (Uses):					
Insurance loss recoveries	0	150,000	150,000	150,000	0
Operating transfers in	500,000	531,120	531,120	31,120	0
Operating transfers out	(650,000)	(640,279)	(640,279)	9,721	0
Total Other Financing Sources (Uses)	(150,000)	40,841	40,841	190,841	0
Net Change in Fund Balances	(700,000)	(802,239)	(857,644)	(102,239)	(55,405)
Fund Balances:					
July 1, 2005	2,154,820	2,154,820	2,196,581	0	41,761
June 30, 2006	1,454,820	1,352,581	1,338,937	(102,239)	(13,644)

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

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Food Service Fund
 For the Year Ended June 30, 2006

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 200,000	197,860	190,711	(2,140)	(7,149)
State sources	8,000	8,307	8,307	307	0
Federal sources	1,300,000	1,273,705	1,273,705	(26,295)	0
Total Revenues	<u>1,508,000</u>	<u>1,479,872</u>	<u>1,472,723</u>	<u>(28,128)</u>	<u>(7,149)</u>
Expenditures:					
Support services	100,000	95,287	95,287	4,713	0
Noninstructional services	1,400,000	1,371,825	1,367,844	28,175	3,981
Total Expenditures	<u>1,500,000</u>	<u>1,467,112</u>	<u>1,463,131</u>	<u>32,888</u>	<u>3,981</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,000</u>	<u>12,760</u>	<u>9,592</u>	<u>(61,016)</u>	<u>(3,168)</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(50,000)</u>	<u>(75,000)</u>	<u>(50,014)</u>	<u>(25,000)</u>	<u>24,986</u>
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(50,014)</u>	<u>(50,014)</u>	<u>(25,000)</u>	<u>24,986</u>
Net Change in Fund Balances	<u>(42,000)</u>	<u>(37,254)</u>	<u>(40,422)</u>	<u>(86,016)</u>	<u>21,818</u>
Fund Balances:					
July 1, 2005	<u>505,646</u>	<u>505,646</u>	<u>518,598</u>	<u>0</u>	<u>12,952</u>
Increase in reserve for inventory			<u>(2,111)</u>	<u>0</u>	<u>(2,111)</u>
June 30, 2006	<u>463,646</u>	<u>468,392</u>	<u>476,065</u>	<u>4,746</u>	<u>7,673</u>

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

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title VI Fund
 For the Year Ended June 30, 2006

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$		0	0	0
Federal sources	75,000	73,390	22,076	(1,610)	(51,314)
Total Revenues	75,000	73,390	22,076	(1,610)	(51,314)
Expenditures:					
Instruction	35,000	20,101	20,101	(14,899)	0
Support services	3,000	1,958	1,958	(1,042)	0
Noninstructional services		17	17	17	0
Total Expenditures	38,000	22,076	22,076	(15,924)	0
Excess (Deficiency) of Revenues Over Expenditures	37,000	51,314	0	14,314	(51,314)
Other Financing Sources (Uses):					
Operating transfers in			0	0	0
Operating transfers out			0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	37,000	51,314	0	14,314	(51,314)
Fund Balances:					
July 1, 2005	0			0	0
June 30, 2006	37,000	51,314	0	14,314	(51,314)

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

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

Schedule 4

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 280,000	277,254	226,164	(2,746)	(51,090)
Total Revenues	280,000	277,254	226,164	(2,746)	(51,090)
Expenditures:					
Instruction	250,000	201,516	201,516	(48,484)	0
Support services	25,000	19,648	19,648	(5,352)	0
Total Expenditures	275,000	221,164	221,164	(53,836)	0
Excess (Deficiency) of Revenues Over Expenditures	5,000	56,090	5,000	51,090	(51,090)
Other Financing Sources (Uses):					
Operating transfers in			0	0	0
Operating transfers out	(5,000)	(5,000)	(5,000)	0	0
Total Other Financing Sources (Uses)	(5,000)	(5,000)	(5,000)	0	0
Net Change in Fund Balances	0	51,090	0	51,090	(51,090)
Fund Balances:					
July 1, 2005	0			0	0
June 30, 2006	0	51,090	0	51,090	(51,090)

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, 2006

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 October 15. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

INDIANOLA SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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

Schedule 5

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Catalog of Federal Domestic <u>Assistance Number</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	102,190
Child Nutrition Cluster:		
School Breakfast Program	10.553	259,121
National School Lunch Program	10.555	<u>912,394</u>
Total Nutrition Cluster		<u>1,171,515</u>
Total Passed through Mississippi Department of Education		<u>1,273,705</u>
Total U.S. Department of Agriculture		<u>1,273,705</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	<u>71,754</u>
Total Federal Communication Commission		<u>71,754</u>
<u>U.S. Department of Education</u>		
Passed through Mississippi Department of Education		
Special Education Cluster		
Special education grants to state	84.027	510,612
Special education - preschool grants	84.173	<u>18,812</u>
Total Special Education Cluster		<u>529,424</u>
Title I grants to local educational agencies	84.010	1,513,056
Career and technical education - basic grants to states	84.048	90,077
Safe and drug free schools and communities- state grants	84.186	30,881
State grants for innovative programs	84.298	6,943
Education technology state grants	84.318	33,713
Reading First State Grants	84.357	371,924
Rural education	84.358	22,076
Improving teacher quality - state grants	84.367	226,164
Hurricane Education Recovery	84.938	<u>131,313</u>
Total Passed through Mississippi Department of Education		<u>2,955,571</u>
Total U.S. Department of Education		<u>2,955,571</u>

U.S. Department of Defense		
Direct Program		
Reserve Officers' Training Corps	12.XXX	<u>47,688</u>
Total U.S. Department of Defense		<u>47,688</u>
Total for All Federal Awards		<u>4,348,718</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 6

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

Functions/Programs	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 15,099,316	\$ 11,737,074	\$ 628,087	1,162,953	\$ 1,571,202
Other expenditures	5,476,523	1,058,150	190,530	92,932	4,134,911
Total	\$ 20,575,839	\$ 12,795,224	\$ 818,617	1,255,885	\$ 5,706,113
Total number of students:	2,807				
Cost per student:	\$ <u>7,330</u>	\$ <u>4,558</u>	\$ <u>292</u>	<u>447</u>	\$ <u>2,033</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, 2100, & 2200 functional codes

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services -Business (2500s)

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

Other - inscludes all expenditure functions not included in Instruction or Administration Categories

include 100 and 200 range object codes on the "Salary and fringe benefits" line; all other expenditures on the "Other" line.

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, 2006, 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 June 17, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing 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, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated June 17, 2008, 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 "Robert D. Smith".

June 17, 2008

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, 2006. 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.

In my opinion, 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, 2006. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the Schedule of Findings and Questioned Costs as Findings 06-01 and 06-02.

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.



June 17, 2008

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, 2006, which collectively comprise the basic financial statements of the Indianola School District, and have issued my report thereon dated June 17, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), 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 \$49,302 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 instance of noncompliance with other state laws and regulations. My finding and recommendation and your response are as follows:

Finding:

The district's club trust accounts had a negative cash balance at June 30, 2006. Trust funds assets are amounts placed in trust with the school district by various student organization. These funds are the property of the student organizations and not of the school district. Expenditures are not controlled by the district nor subject to state purchasing laws. Expenditures from these fund must be limited to the available balance in that fund. There is no provision in state law to allow the district to provide governmental funds to pay for expenditures of club funds.

Recommendation:

The district should take immediate action to recover the over expended club funds. In the future no expenditures should be allowed from a club trust fund unless there are funds available in that fund to cover the expenditure.

Response:

We believe that some receipts of the club funds were miscoded by the principals and incorrectly recorded as activity fund revenue. We will discuss this with the principals to correct any mistakes and if there are none or if the mistakes do not cover the negative balance we will suspend expenditures from those funds until the money is recovered.

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.



June 17, 2008

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, 2006

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: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | 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 |
| Reading First State Grants | - CFDA 84.357 |

- | | |
|---|------------|
| 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. | Yes |

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

Immaterial noncompliance

06-01. Finding

Program: Title VI Program - CFDA's # 84.358
U. S. Department of Education; passed through
The Mississippi Department of Education

Compliance requirement: Cash Management

The district at June 30, 2006 maintained a cash balance in this fund of \$54,100 which was recorded as deferred revenue. This amount is more than twice the amount expended by the program for the entire fiscal year. Federal cash management requirements allow drawdown of funds only to cover immediate needs.

Questions cost: None

Recommendation

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

06-02. Finding

Program: Title II Program - CFDA's # 84.367
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, 2006 the Title II Fund had surplus cash of \$72,936 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 II Program.

INDIANOLA SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT
702 HIGHWAY 82 EAST
Indianola Mississippi

King David Rush, Ed.D.
Superintendent

Telephone (662) 887-2654
Fax (662) 887-7042

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, 2006:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
06-01	<p>a. Contact Person Gwen Durham Business Manager (662) 887-2654</p> <p>b. The district is expanding its rural education program to take advantage of the funds available. The surpluses should be eliminated within the next fiscal year.</p> <p>c. This is currently in place.</p>

<u>Finding</u>	<u>Corrective Action Plan Details</u>
06-02	<p>a. Contact Person Gwen Durham Business Manager (662) 887-2654</p> <p>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 II program in the 2007 fiscal year.</p> <p>c. This is currently in place.</p>

Sincerely yours,

Superintendent of Education

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT

AUDITEE'S SUMMARY OF PRIOR AUDIT FINDINGS

INDIANOLA SCHOOL DISTRICT

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INDIANOLA SCHOOL DISTRICT
702 HIGHWAY 82 EAST
Indianola Mississippi

King David Rush, Ed.D.
Superintendent

Telephone (662) 887-2654
Fax (662) 887-7042

As required by Section ____315(b) of OMB Circular A-133, the Indianola School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2006:

<u>Finding</u>	<u>Status</u>
05-01	Corrective action was taken.

Sincerely yours,

King David Rush Ed. D.
Superintendent

