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**OKOLONA SCHOOL DISTRICT**  
**FINANCIAL AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**OKOLONA SCHOOL DISTRICT  
TABLE OF CONTENTS  
JUNE 30, 2006**

	<u>Page</u>
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	4
Management's Discussion and Analysis	6
Financial Statements	14
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	20
Statement of Fiduciary Net Assets	21
Notes to Financial Statements	22
Required Supplementary Information	43
Budgetary Comparison Schedule for the General Fund	44
Budgetary Comparison Schedule for the Title I Fund	45
Budgetary Comparison Schedule for the QZAB Bonds Fund	46

**OKOLONA SCHOOL DISTRICT  
TABLE OF CONTENTS (CONTINUED)  
JUNE 30, 2006**

	<u>Page</u>
Required Supplementary Information (Continued)	
Notes to the Required Supplementary Information	47
Supplemental Information	48
Schedule of Expenditures of Federal Awards	49
Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds	51
Reports on Internal Control and Compliance	52
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	55
Independent Auditors' Report on Compliance with State Laws and Regulations	57
Schedule of Findings and Questioned Costs	58

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

Superintendent and School Board  
Okolona School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona School District, as of June 30, 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*, we have also issued our report dated February 21, 2007, on our consideration of the Okolona School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 44 through 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

February 21, 2007  
Tupelo, Mississippi

A handwritten signature in black ink that reads "J. E. Vance + Company". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The discussion and analysis of Okolona School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 for 2006 increased \$110,676, which represents a 7% increase from fiscal year 2005. Total net assets for 2005 decreased \$100,921, which represents a 6% decrease from fiscal year 2004.
- General revenues account for \$5,288,642 and \$4,840,131 in revenue, or 70% of total revenues for fiscal year 2006 and 71% of total revenues for 2005. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,239,912 or 30% of total revenues for 2006 and \$2,008,028 or 29% of total revenues for 2005.
- The District had \$7,413,314 and \$6,925,114 in expenses for fiscal years 2006 and 2005; only \$2,239,912 for 2006 and \$2,008,028 for 2005 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$5,288,642 for 2006 and \$4,840,131 for 2005 were adequate to provide for these programs.
- Among major funds, the General Fund had \$5,189,098 in revenues and \$5,169,256 in expenditures for 2006 and \$4,729,418 in revenues and \$4,755,692 in expenditures for 2005. The General Fund's fund balance increased \$105,854 from 2005 to 2006, and decreased \$179,753 from 2004 to 2005.
- Capital assets, net of accumulated depreciation, increased by \$179,078 for 2006 and decreased by \$73,460 for 2005.
- Long-term debt increased by \$687,079 for 2006 and \$86,334 for 2005.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15 and 16 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively, of this report.

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 17 and 19 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

**Notes to the financial statements.** The notes provide additional information that is essential to have 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 - 42 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 43 - 47 of this report.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Cir. A-133 and a Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds can be found on pages 49 - 51 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$1,613,643 as of June 30, 2006 and by \$1,502,967 as of June 30, 2005.

By far the largest portion of the District's net assets (18% for 2006 and 53% for 2005) reflects its investment in capital assets (e.g., land, buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets as of June 30, 2006 and 2005, respectively.

	Net Assets		\$ Variance	%
	June 30, 2006	June 30, 2005		
Current assets	\$ 1,613,208	\$ 955,294	657,914	68.87%
Capital assets, net	2,745,627	2,566,549	179,078	6.98%
Total assets	<u>4,358,835</u>	<u>3,521,843</u>	836,992	23.77%
Current liabilities	240,332	201,095	(39,237)	-19.51%
Long-term debt outstanding	2,504,860	1,817,781	(687,079)	-37.80%
Total liabilities	<u>2,745,192</u>	<u>2,018,876</u>	(726,316)	-35.98%
Net assets:				
Invested in capital assets, net of related debt	287,968	790,447	502,479	63.57%
Restricted	905,944	393,121	(512,823)	-130.45%
Unrestricted	419,731	319,399	(100,332)	-31.41%
Total net assets	\$ <u>1,613,643</u>	\$ <u>1,502,967</u>	(110,676)	-7.36%

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

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2006 and 2005 were \$7,528,554 and \$6,848,159, respectively. The total cost of all programs and services was \$7,413,314 and \$6,925,114 for 2006 and 2005, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005, respectively.

	Change in Net Assets			
	June 30, 2006	June 30, 2005	\$ Variance	%
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 154,420	\$ 128,926	25,494	19.77%
Operating grants and contributions	2,019,006	1,821,914	197,092	10.82%
Capital grants and contributions	66,486	57,188	9,298	16.26%
General revenues:				
Property taxes	1,047,826	945,560	102,266	10.82%
Grants and contributions not restricted	4,181,541	3,856,563	324,978	8.43%
Investment earnings not restricted	38,490	13,798	24,692	178.95%
Other	20,785	24,210	(3,425)	-14.15%
<b>Total revenues</b>	<b>7,528,554</b>	<b>6,848,159</b>	<b>680,395</b>	<b>9.94%</b>
<b>Expenses:</b>				
Instruction	4,499,384	4,197,428	301,956	7.19%
Support services	2,266,598	2,251,120	15,478	0.69%
Non-instructional	564,370	366,334	198,036	54.06%
Interest on long-term liabilities	82,962	110,232	(27,270)	-24.74%
<b>Total expenses</b>	<b>7,413,314</b>	<b>6,925,114</b>	<b>488,200</b>	<b>7.05%</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 115,240</b>	<b>\$ (76,955)</b>	<b>192,195</b>	<b>-249.75%</b>

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

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 4,499,384	\$ (3,118,276)	\$ 4,197,428	\$ (3,013,569)
Support services	2,266,598	(1,832,524)	2,251,120	(1,828,312)
Non-instructional	564,370	(139,640)	366,334	35,027
Interest on long-term liabilities	82,962	(82,962)	110,232	(110,232)
<b>Total expenses</b>	<b>\$ 7,413,314</b>	<b>\$ (5,173,402)</b>	<b>\$ 6,925,114</b>	<b>\$ (4,917,086)</b>

- Net cost of governmental activities (\$5,173,402 for 2006 and \$4,917,086 for 2005), was financed by general revenue, which is made up of primarily property taxes (\$1,047,826 for 2006 and \$945,560 for 2005) and state revenue (\$4,131,871 for 2006 and \$3,817,101 for 2005).

- Investment earnings accounted for \$38,490 and \$13,798 of funding for 2006 and 2005, respectively.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,400,551 for 2006, an increase of \$617,552 from 2005, and \$782,999 for 2005, a decrease of \$94,497 from 2004. \$1,195,466 or 85% for 2006 and \$644,264 or 82% for 2005 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 \$205,085 or 15% for 2006 and \$138,735 or 18% for 2005 is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

	2006	2005
Inventory	\$ 9,582	\$ 7,421
Unemployment Benefits	18,214	16,608
Debt Service	177,289	114,706
Total assets	<u>\$ 205,085</u>	<u>\$ 138,735</u>

The General Fund is the principal operating fund of the District. The fund balance in the General Fund showed an increase of \$105,854 for 2006 and a decrease of \$179,753 for 2005. The fund balance of Other Governmental Funds showed a decrease for 2006 and 2005.

## BUDGETARY HIGHLIGHTS

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

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The District's total capital assets were \$5,021,451 for 2006 and \$4,738,895 for 2005, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$282,556 from 2005 to 2006 and a decrease of \$7,000 from 2004 to 2005. Total accumulated depreciation was \$2,275,824 for 2006 and \$2,172,346 for 2005. Total depreciation expense was \$103,478 for 2006 and \$106,504 for 2005, resulting in total net assets of \$2,745,627 for 2006 and \$2,566,549 for 2005.

Additional information of the District's capital assets can be found in Note 5 on pages 33 and 34 of this report.

**Debt Administration.** At June 30, 2006, the District had \$2,504,860 in long-term debt outstanding, of which \$211,412 is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on pages 34 - 38 of this report.

## **CURRENT ISSUES**

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

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

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Okolona School District, P. O. Box 510 or 503 West Main, Okolona, MS 38860.

## **FINANCIAL STATEMENTS**

**OKOLONA SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Exhibit A</u> <u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 1,226,450
Investments (Note 3)	21,548
Accrued interest receivable	356
Due from other governments	330,102
Inventories and prepaid items	9,582
Restricted assets	25,170
Capital assets, not being depreciated:	
Land	77,760
Construction in progress	131,606
Capital assets, net of accumulated depreciation:	
Buildings	2,271,082
Mobile equipment	207,376
Furniture and equipment	57,803
<b>Total Assets</b>	<b>\$ <u>4,358,835</u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 88,032
Interest payable on long-term liabilities	27,675
Deferred revenue	124,625
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	211,412
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	2,246,247
Non-capital related liabilities	47,201
<b>Total Liabilities</b>	<b>\$ <u>2,745,192</u></b>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 287,968
Restricted net assets:	
Expendable:	
School-based activities	254,548
Debt service	149,614
Capital improvements	458,398
Unemployment benefits	18,214
Non-expendable:	
Other	25,170
Unrestricted	419,731
<b>Total Net Assets</b>	<b>\$ <u>1,613,643</u></b>

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

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

Functions/Programs	Expenses	Program Revenues			Exhibit B
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
					Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 4,499,384	118,981	1,236,798	25,329	(3,118,276)
Support services	2,266,598		427,315	6,759	(1,832,524)
Non-instructional	564,370	35,439	354,893	34,398	(139,640)
Interest on long-term liabilities	82,962				(82,962)
<b>Total Governmental Activities:</b>	<b>\$ 7,413,314</b>	<b>154,420</b>	<b>2,019,006</b>	<b>66,486</b>	<b>(5,173,402)</b>
General Revenues:					
Taxes:					
					975,512
					72,314
Unrestricted grants and contributions:					
					4,131,871
					49,670
Unrestricted investment earnings					
					38,490
Other					
					20,785
					<b>5,288,642</b>
Change in Net Assets					
					115,240
Net Assets - Beginning					
					1,502,967
Prior Period Adjustments (Note 9):					
					(4,564)
Net Assets - Beginning - Restated					
					1,498,403
Net Assets - Ending					
					\$ 1,613,643

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

**OKOLONA SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Major Funds					Total Governmental Funds
	General Fund	Title I Fund	QZAB Bonds Fund	Okolona Construction Fund	Other Governmental Funds	
<b>ASSETS</b>						
Cash and cash equivalents (Note 3)	\$ 371,248		250,143	233,293	396,936	1,251,620
Investments (Note 3)					21,548	21,548
Accrued interest receivable	356					356
Due from other governments	107,618	75,000			147,484	330,102
Due from other funds (Note 4)	20,175			94,337	15,000	129,512
Inventories and prepaid items					9,582	9,582
<b>Total Assets</b>	<b>\$ 499,397</b>	<b>75,000</b>	<b>250,143</b>	<b>327,630</b>	<b>590,550</b>	<b>1,742,720</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 32,465	24,167			31,400	88,032
Due to other funds (Note 4)		14,009	94,337		21,166	129,512
Deferred revenue					124,625	124,625
<b>Total Liabilities</b>	<b>32,465</b>	<b>38,176</b>	<b>94,337</b>	<b>-0-</b>	<b>177,191</b>	<b>342,169</b>
<b>Fund Balances:</b>						
<b>Reserved for:</b>						
Unemployment benefits					18,214	18,214
Inventory					9,582	9,582
Debt Service funds					177,289	177,289
<b>Unreserved:</b>						
<b>Undesignated, reported in:</b>						
General fund	466,932					466,932
Special Revenue funds		36,824	155,806		52,336	244,966
Capital Projects funds				327,630	130,768	458,398
Permanent funds					25,170	25,170
<b>Total Fund Balances</b>	<b>466,932</b>	<b>36,824</b>	<b>155,806</b>	<b>327,630</b>	<b>413,359</b>	<b>1,400,551</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 499,397</b>	<b>75,000</b>	<b>250,143</b>	<b>327,630</b>	<b>590,550</b>	<b>1,742,720</b>

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

**OKOLONA SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<u>Exhibit C-1</u>
	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,400,551
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,275,824. (Note 5)	2,745,627
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(2,504,860)
3. Interest payable on long-term liabilities	(27,675)
	_____
Total Net Assets - Governmental Activities	\$ 1,613,643

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

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

	Major Fund					Total Governmental Funds
	General Fund	Title I Fund	QZAB Bonds Fund	Okolona Construction Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 1,121,525		6,123	8,919	124,952	1,261,519
State sources	4,010,090				447,337	4,457,427
Federal sources	57,483	279,892			1,472,234	1,809,609
Total Revenues	<u>5,189,098</u>	<u>279,892</u>	<u>6,123</u>	<u>8,919</u>	<u>2,044,523</u>	<u>7,528,555</u>
Expenditures:						
Instruction	3,283,746	147,845			1,006,224	4,437,815
Support services	1,843,432	75,238			429,039	2,347,709
Noninstructional services					588,940	588,940
Facilities acq. and construction				31,289		131,606
Debt service:						
Principal	37,199				130,437	167,636
Interest	4,879				78,143	83,022
Other					1,065	1,065
Total Expenditures	<u>5,169,256</u>	<u>223,083</u>	<u>100,317</u>	<u>31,289</u>	<u>2,233,848</u>	<u>7,757,793</u>
Excess (Deficiency) of Revenues Over Expenditures	19,842	56,809	(94,194)	(22,370)	(189,325)	(229,238)
Other Financing Sources (Uses):						
Proceeds of qualified zone academy bonds			250,000			250,000
Proceeds of loans	99,193			350,000	150,000	599,193
Operating transfers in	586,839				117,934	704,773
Operating transfers out	(600,020)	(20,000)			(84,753)	(704,773)
Total Other Financing Sources (Uses)	86,012	(20,000)	250,000	350,000	183,181	849,193
Net Change in Fund Balances	105,854	36,809	155,806	327,630	(6,144)	619,955
Fund Balances:						
July 1, 2005	361,078	15	-0-	-0-	421,906	782,999
Prior period adjustments (Note 9)					(4,564)	(4,564)
July 1, 2005, as restated	361,078	15	-0-	-0-	417,342	778,435
Increase in reserve for inventory					2,161	2,161
June 30, 2006	<u>466,932</u>	<u>36,824</u>	<u>155,806</u>	<u>327,630</u>	<u>413,359</u>	<u>1,400,551</u>

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

**OKOLONA SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Exhibit D-1</u>
	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 619,955
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
1. Governmental funds report capital outlays as expenditures while activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$282,556 and the depreciation expense amounted to \$103,478. (Note 5)	179,078
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	167,636
3. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities. (Note 6)	(849,193)
4. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$27,675, which is a decrease from last year.	1,125
5. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences increased to \$47,201.	(5,522)
6. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	<u>2,161</u>
Change in Net Assets of Governmental Activities	\$ <u><u>115,240</u></u>

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

**OKOLONA SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

	<u>Exhibit E</u>
	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ <u>333,627</u>
<b>Total Assets</b>	<b>\$ <u><u>333,627</u></u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 328,753
Due to student clubs	<u>4,874</u>
<b>Total Liabilities</b>	<b>\$ <u><u>333,627</u></u></b>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 1: Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Okolona since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

**B. Basis of Presentation**

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

Government-wide Financial Statements

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

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements

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

**C. Measurement Focus and Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

Title I Fund - This is the school district's fund for accounting for the federal funding of the Title I program.

QZAB Bonds Fund - This is the school district's fund for accounting for the issuance of qualified zone academy bonds for capital improvements.

Okolona Construction Fund - This is the school district's fund for accounting for the issuance of limited tax notes for capital improvements.

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

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

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

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

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

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

**FIDUCIARY FUNDS**

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

**D. Account Classifications**

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

**E. Encumbrances**

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

**F. Cash and Cash Equivalents**

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

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

**G. Investments**

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

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

Investments are reported at fair value.

**H. Inventories and Prepaid Items**

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

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

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

**I. Capital Assets**

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

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

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

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

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

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

**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, construction or improvement of those assets.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

**L. Equity Classifications (Continued)**

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

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

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

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

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

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 that that for which it is restricted.

**M. Property Taxes**

Ad valorem property taxes are levied by the governing authority 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**

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

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

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

**O. Compensated Absences**

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

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.

**Note 2: Changes in Accounting Standards**

As required, the Okolona 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.

**Note 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 the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 3: Cash and Cash Equivalents and Investments (Continued)**

collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

**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 \$1,251,620 and \$333,627, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$1,226,450 and restricted assets \$25,170. The restricted assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$1,859,860.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$1,859,860 was exposed to custodial credit risk.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 3: Cash and Cash Equivalents and Investments (Continued)**

Investments

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Government Securities	More than 10	\$ 21,548	AA
Total Investments		<u>\$ 21,548</u>	

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

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

*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.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 4: Interfund Transactions and Balances**

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 20,175	
Title I fund		14,009
QZAB Bonds fund		94,337
Okolona Construction fund	94,337	
Other governmental funds	<u>15,000</u>	<u>21,166</u>
Total	<u>\$ 129,512</u>	<u>129,512</u>

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

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General fund	\$ 586,839	600,020
Title I fund		20,000
Other governmental funds	117,934	84,753
Total	<u>\$ 704,773</u>	<u>704,773</u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 5: Capital Assets**

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

	Balance 7/1/2005	Additions	Retirements	Balance 6/30/2006
<u>Non-depreciable capital assets</u>				
Land	\$ 77,760			77,760
Construction in progress	-0-	131,606		131,606
Total non-depreciable capital assets	<u>77,760</u>	<u>131,606</u>	<u>-0-</u>	<u>209,366</u>
<u>Depreciable capital assets</u>				
Buildings	3,963,417			3,963,417
Mobile equipment	399,975	108,602		508,577
Furniture and equipment	297,743	42,348		340,091
Total depreciable capital assets	<u>4,661,135</u>	<u>150,950</u>	<u>-0-</u>	<u>4,812,085</u>
<u>Less accumulated depreciation for:</u>				
Buildings	1,638,196	54,139		1,692,335
Mobile equipment	274,908	26,293		301,201
Furniture and equipment	259,242	23,046		282,288
Total accumulated depreciation	<u>2,172,346</u>	<u>103,478</u>	<u>-0-</u>	<u>2,275,824</u>
Total depreciable capital assets, net	<u>2,488,789</u>	<u>47,472</u>	<u>-0-</u>	<u>2,536,261</u>
Governmental activities capital assets, net	<u>\$ 2,566,549</u>	<u>179,078</u>	<u>-0-</u>	<u>2,745,627</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 58,518
Support services	30,521
Non-instructional	<u>14,439</u>
Total depreciation expense	<u>\$ 103,478</u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 5: Capital Assets (Continued)**

Commitments under construction contracts at June 30, 2006, are summarized as follows:

	Remaining Commitment	Required Future Financing
Okolona High School Renovations	\$ 468,394	\$ -0-
	\$ 468,394	\$ -0-

**Note 6: Long-term Liabilities**

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

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Amounts due within one year
A. Limited obligation bonds payable	\$ 1,540,000		90,000	1,450,000	95,000
B. Three mill note payable	93,831		29,740	64,091	31,242
C. Obligations under capital lease	88,949	249,193	28,951	309,191	52,540
D. Qualified zone academy bonds	-0-	250,000		250,000	
E. Other loans payable	53,322	350,000	18,945	384,377	32,630
F. Compensated absences payable	41,679	5,522		47,201	
Total	\$ 1,817,781	854,715	167,636	2,504,860	211,412

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 6: Long-term Liabilities (Continued)**

A. Limited obligation bonds payable

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

<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, Series 1998	Varies	6/1/98	6/1/18	\$ 1,950,000	\$ 1,450,000
Total				\$ 1,950,000	\$ 1,450,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 95,000	66,645	161,645
2008	100,000	62,465	162,465
2009	100,000	57,965	157,965
2010	105,000	53,465	158,465
2011	110,000	48,740	158,740
2012-2016	640,000	162,510	802,510
2017-2020	300,000	21,385	321,385
Total	\$ 1,450,000	473,175	1,923,175

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 6: Long-term Liabilities (Continued)**

B. Three mill note payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
EEF Buildings & Buses limited tax notes	4.79%	5/1/98	4/18/08	\$ <u>267,640</u>	\$ <u>64,091</u>
Total				\$ <u><u>267,640</u></u>	\$ <u><u>64,091</u></u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 31,242	3,066	34,308
2008	<u>32,849</u>	<u>1,569</u>	<u>34,418</u>
Total	\$ <u><u>64,091</u></u>	<u><u>4,635</u></u>	<u><u>68,726</u></u>

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

D. Obligations under capital leases.

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

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

1. Prepayment option
2. Purchase option

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 6: Long-term Liabilities (Continued)**

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

Year Ending June 30,	Principal	Interest and Maintenance Charges	Total
2007	\$ 52,540	12,952	65,492
2008	53,380	12,112	65,492
2009	55,791	9,701	65,492
2010	37,161	7,178	44,339
2011	26,460	5,112	31,572
2012-2016	83,859	12,155	96,014
Total	\$ <u>309,191</u>	<u>59,210</u>	<u>368,401</u>

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

This debt will be retired from the district maintenance fund.

**D. Qualified zone academy bonds payable**

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	0.00%	11/10/05	12/01/15	\$ <u>250,000</u>	\$ <u>250,000</u>
Total				\$ <u>250,000</u>	\$ <u>250,000</u>

**E. Other loans payable**

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 6: Long-term Liabilities (Continued)**

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited Tax Note	3.70%	10/5/05	10/1/15	\$ 350,000	\$ 350,000
Emergency Repair Loan	4.00%	1/31/02	1/31/09	75,000	34,377
Total				<u>\$ 425,000</u>	<u>\$ 384,377</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 32,630	20,250	52,880
2008	34,075	12,660	46,735
2009	35,172	11,346	46,518
2010	29,000	9,916	38,916
2011	31,500	8,797	40,297
2012-2016	222,000	23,976	245,976
Total	<u>\$ 384,377</u>	<u>86,945</u>	<u>471,322</u>

This debt will be retired from the Building Repairs and Renovations Debt fund and the Okolona Construction Fund.

**F. Compensated absences payable**

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 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 Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 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 \$431,717, \$380,784, and \$351,237, respectively, which equaled the required contributions for each year.

**Note 8: Other Commitments**

Operating leases:

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

Lease expenditures for the year ended June 30, 2006, amounted to \$4,000. Future lease payments for this lease are as follows:

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

**OKOLONA SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2006**

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

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
1. To record prior year expense	\$ <u>4,564</u>
Total	<u><u>4,564</u></u>
 <u>Statement of Revenues, Expenditures and Changes in Fund Balances</u>	
<u>Major fund:</u>	<u>Explanation</u>
Other Governmental Funds	To record prior year expense
	<u>4,564</u>
Total	<u><u>\$ 4,564</u></u>

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 10: Risk Management**

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

**Participation in Public Entity Risk Pool**

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi 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 BancorpSouth 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.

**Note 11: Qualified Zone Academy Bonds**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs for kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark Bank, has entered into such an arrangement dated November 10, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before December 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

**OKOLONA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2006**

**Note 11: Qualified Zone Academy Bonds (Continued)**

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 5,000
2008	5,000
2009	5,000
2010	34,000
2011	34,000
2012-2016	<u>125,747</u>
Total	<u>\$ 208,747</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 949,120	1,121,525	1,121,525	172,405	-0-
State sources	4,070,178	4,010,090	4,010,090	(60,088)	-0-
Federal sources	43,664	57,483	57,483	13,819	-0-
Total Revenues	<u>5,062,962</u>	<u>5,189,098</u>	<u>5,189,098</u>	<u>126,136</u>	<u>-0-</u>
<b>Expenditures:</b>					
Instruction	3,217,822	3,283,746	3,283,746	(65,924)	-0-
Support services	1,773,004	1,843,432	1,843,432	(70,428)	-0-
<b>Debt service:</b>					
Principal	26,822	37,199	37,199	(10,377)	-0-
Interest	2,977	4,879	4,879	(1,902)	-0-
Total Expenditures	<u>5,020,625</u>	<u>5,169,256</u>	<u>5,169,256</u>	<u>(148,631)</u>	<u>-0-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	<u>42,337</u>	<u>19,842</u>	<u>19,842</u>	<u>(22,495)</u>	<u>-0-</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans			99,193	-0-	99,193
Sale of other property	1,000			(1,000)	-0-
Operating transfers in	567,819	586,839	586,839	19,020	-0-
Operating transfers out	(647,997)	(600,020)	(600,020)	47,977	-0-
Total Other Financing Sources (Uses)	<u>(79,178)</u>	<u>(13,181)</u>	<u>86,012</u>	<u>65,997</u>	<u>99,193</u>
<b>Net Change in Fund Balances</b>					
	<u>(36,841)</u>	<u>6,661</u>	<u>105,854</u>	<u>43,502</u>	<u>99,193</u>
<b>Fund Balances:</b>					
July 1, 2005	<u>126,748</u>	<u>361,078</u>	<u>361,078</u>	<u>234,330</u>	<u>-0-</u>
June 30, 2006	<u>\$ 89,907</u>	<u>367,739</u>	<u>466,932</u>	<u>277,832</u>	<u>99,193</u>

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

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Federal sources	\$ 200,000	279,892	279,892	79,892	-0-
Total Revenues	<u>200,000</u>	<u>279,892</u>	<u>279,892</u>	<u>79,892</u>	<u>-0-</u>
Expenditures:					
Instruction	116,443	147,845	147,845	(31,402)	-0-
Support services	114,630	75,238	75,238	39,392	-0-
Total Expenditures	<u>231,073</u>	<u>223,083</u>	<u>223,083</u>	<u>7,990</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(31,073)</u>	<u>56,809</u>	<u>56,809</u>	<u>87,882</u>	<u>-0-</u>
Other Financing Uses:					
Operating transfers out	<u>-0-</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-0-</u>
Total Other Financing Uses	<u>-0-</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>(31,073)</u>	<u>36,809</u>	<u>36,809</u>	<u>67,882</u>	<u>-0-</u>
Fund Balances:					
July 1, 2005	<u>(96,490)</u>	<u>15</u>	<u>15</u>	<u>96,505</u>	<u>-0-</u>
June 30, 2006	<u>\$ (127,563)</u>	<u>36,824</u>	<u>36,824</u>	<u>164,387</u>	<u>-0-</u>

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

**OKOLONA SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE QZAB BONDS FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$	6,123	6,123	6,123	-0-
Total Revenues		<u>-0-</u>	<u>6,123</u>	<u>6,123</u>	<u>-0-</u>
<b>Expenditures:</b>					
Facilities acquisition and construction		250,000	100,317	149,683	-0-
Total Expenditures		<u>250,000</u>	<u>100,317</u>	<u>149,683</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures		<u>(250,000)</u>	<u>(94,194)</u>	<u>155,806</u>	<u>-0-</u>
<b>Other Financing Sources:</b>					
Proceeds of QZAB bonds		250,000	250,000	-0-	-0-
Total Other Financing Sources		<u>250,000</u>	<u>250,000</u>	<u>-0-</u>	<u>-0-</u>
Net Change in Fund Balances		<u>-0-</u>	<u>155,806</u>	<u>155,806</u>	<u>-0-</u>
<b>Fund Balances:</b>					
July 1, 2005		<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2006	\$	<u><u>-0-</u></u>	<u><u>155,806</u></u>	<u><u>155,806</u></u>	<u><u>-0-</u></u>

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

**OKOLONA SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006**

**Budgetary Comparison Schedules**

**Note 1: Basis of Presentation**

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

**Note 2: Budget amendments and revisions**

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

## **SUPPLEMENTAL INFORMATION**

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 22,912
Child nutrition cluster:		
School breakfast program	10.553	108,806
National school lunch program	10.555	257,197
Summer food service program for children	10.559	8,461
Total		374,464
<b>Total U.S. Department of Agriculture</b>		<b>397,376</b>
<b>U.S. Department of Education</b>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	611,734
Vocational education - basic grants to states	84.048	18,680
Safe and drug-free schools and communities - national programs	84.184	36,056
Safe and drug-free schools and communities - state grants	84.186	12,003
Eisenhower professional development state grants	84.281	75,262
Twenty-first century community learning centers	84.287	140,449
State grants for innovative programs	84.298	3,693
Education technology state grants	84.318	26,105
Reading first state grants	84.357	243,083
Grants for state assessments and related activities	84.369	5,180
Comprehensive school reform demonstration	84.332	11,562
Improving teacher quality-state grants	84.367	28,409
Rural education	84.358	33,501
Total		1,245,717
Special education cluster:		
Special education - grants to states	84.027	175,768
Special education - preschool grants	84.173	6,705
Total		182,473
Total passed-through Mississippi Department of Education		1,428,190
<b>Total U.S. Department of Education</b>		<b>1,428,190</b>
<b>Corporation for National and Community Service</b>		
Passed-through the Mississippi Department of Education		
Learn and serve America - school and community based programs	94.004	10,335
Total Corporation for National and Community Service		10,335

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>Federal Communications Commission</b>		
Administered through the Universal Service Administration Company		
The schools and libraries program of the universal service fund	32.XXX	<u>35,097</u>
<b>Total Federal Communications Commission</b>		<u>35,097</u>
<b>Total for All Federal Awards</b>		<u><u>1,870,998</u></u>

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

Note 2: The expenditure amounts include transfers out.

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 5,098,641	4,429,793	341,406	284,418	43,024
Other	2,659,152	842,988	102,943	6,465	1,706,756
Total	\$ 7,757,793	5,272,781	444,349	290,883	1,749,780
Total number of students	807				
Cost per student	\$ 9,613	6,534	551	360	2,168

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

**Instruction and Other Student Instructional Expenditures** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type .

**General Administration** - includes expenditures for the following functions: Support Services - General Administration; and Support Services - Business.

**School Administration** - includes expenditures for the following function: Support Services - School Administration.

**Other** - includes all expenditure functions not included in Instruction or Administration Categories.

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

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

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

Superintendent and School Board  
Okolona School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona School District as of and for the year ended June 30, 2006, which collectively comprise the Okolona School District's basic financial statements, and have issued our report thereon dated February 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

February 21, 2007  
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J. E. Vance + Company". The signature is written in black ink and is positioned to the right of the date and location text.

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

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

Superintendent and School Board  
Okolona School District

### Compliance

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

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

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

## Internal Control Over Compliance

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

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

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

February 21, 2007  
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J.E. Vance + Company". The signature is written in black ink and is positioned to the right of the date and location text.

**J.E. VANCE & COMPANY, P.A.**  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Superintendent and School Board  
Okolona School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona School District as of and for the year ended June 30, 2006, which collectively comprise Okolona School District's basic financial statements and have issued our report thereon dated February 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

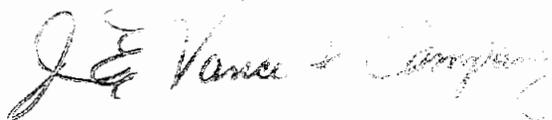
Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,952 of classroom supply funds carried over from previous years.

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

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

February 21, 2007  
Tupelo, Mississippi



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

**Federal Awards:**

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

**OKOLONA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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

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

**Section 2: Financial Statement Findings**

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

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

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