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**Unaudited Financial Statements
June 30, 2007**

Fortenberry & Ballard, PC
Certified Public Accountants

**Indianola School District
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FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Indianola School District

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Indianola School District as of and for the year ended June 30, 2007, which collectively comprise the Indianola School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Indianola School District's management.

The Indianola School District does not maintain adequate and complete accounting records to provide sufficient information for the fair presentation of the basic financial statements. Since the school district does not have adequate and complete records we were not able to apply other auditing procedures to satisfy ourselves as to the fair presentation of the financial statements.

Because of the significance of the matters already mentioned, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2008, on our consideration of the Indianola School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 7 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 42 through 46 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 inquiries 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.

We were engaged to conduct our audit for the purpose of forming opinions on the financial statements that collectively comprise the Indianola School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and

Other Expenditures-Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
November 18, 2008

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Indianola School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,007,040, which represents 16% increase from fiscal year 2006.
- General revenues account for \$15,640,667 in revenue, or 73% of all revenues. This amount was more than the general revenues reported for the year 2006, which consisted of \$13,542,442 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,792,576 or 27% of total revenues compared with \$5,916,257, or 30% in 2006.
- The District had \$20,426,203 in expenses, an amount that increased when compared with the \$20,164,773 in expenses for the prior year; only \$5,792,576 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$15,640,667 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,908,762 in revenues and \$14,691,817 in expenditures. In 2006 the General Fund had \$13,196,027 in revenues and \$14,094,512 in expenditures. The General Fund's fund balance decreased \$382,686 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$125,160. The cause of this decrease was mainly due to the estimation of depreciation expense and the recording of it.
- Long-term debt decreased by \$988,662 mainly due to the principal payment of long-term debt and the refunding of the bond issue.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial

statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements can be found on pages 16 and 17 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 20 and 24, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 18 and 22 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 Statement of Fiduciary Net Assets on page 25.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 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 schedule has been provided for the General Fund and for each major special revenue fund that has a legally adopted budget. This required supplementary information can be found on pages 42-46 of this report.

Additionally, a schedule of expenditures of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found on pages 48 and 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$7,498,908 as of June 30, 2007.

By far the largest portion of the District's net assets (65%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students;

consequently these assets are not available for future spending.

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

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

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Assets			
Current Assets	\$ 3,865,498	2,856,813	35%
Capital Assets	<u>10,456,636</u>	<u>10,581,796</u>	-1%
Total Assets	14,322,134	13,438,609	6%
Liabilities			
Current Liabilities	1,181,702	316,555	273%
Long-Term Debt	<u>5,641,524</u>	<u>6,630,186</u>	-15%
Total Liabilities	6,823,226	6,946,741	-2%
Net Assets:			
Invested in Capital Asset, Net of Related Debt	4,911,636	4,066,796	21%
Restricted	1,639,775	278,797	488%
Unrestricted	<u>947,497</u>	<u>2,146,275</u>	-56%
Total Net Assets	<u><u>7,498,908</u></u>	<u><u>6,491,868</u></u>	16%

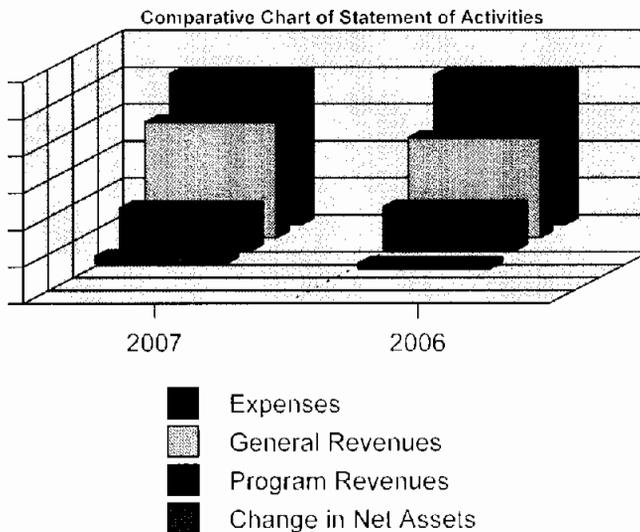
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$4,880,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$21,433,243. The total cost of all programs and services was \$20,426,203. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			

Charges for services	\$ 653,275	625,341	4%
Operating grants and contributions	5,032,645	5,290,916	-5%
Capital grants and contributions	<u>106,656</u>	<u>0</u>	100%
Total program revenues	5,792,576	5,916,257	-2%
Property taxes	2,513,126	2,340,337	7%
Grants and contributions not restricted	12,591,754	10,940,837	15%
Unrestricted investment earnings	152,164	23,673	543%
Sixteenth section sources	114,923	87,595	31%
Other	<u>268,700</u>	<u>150,000</u>	79%
Total general revenues	15,640,667	13,542,442	15%
Total revenues	21,433,243	19,458,699	10%
Expenses:			
Instruction	10,450,821	11,745,445	-11%
Support services	5,700,491	6,619,263	-14%
Non-instructional	411,382	1,479,103	-72%
Sixteenth section sources	8,404	9,218	-9%
Interest on long-term debt	<u>3,855,105</u>	<u>311,744</u>	1137%
Total expenses	20,426,203	20,164,773	1%
Increase (decrease) in net assets	1,007,040	(706,074)	0%
Net Assets, July 1	<u>6,491,868</u>	<u>7,216,556</u>	-10%
Prior Period Adjustment		<u>(18,614)</u>	-100%
Net Assets, Restated	6,491,868	7,197,942	-10%
Net Assets, June 30	\$ <u>7,498,908</u>	<u>6,491,868</u>	16%

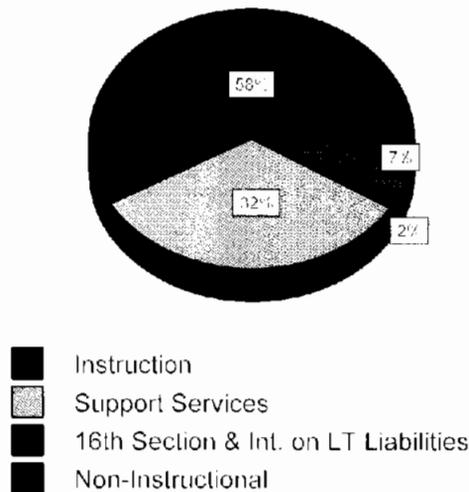


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated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

- Net cost of governmental activities (\$14,633,627), was financed by general revenue, which is made up of primarily property taxes \$2,513,126, investment earnings \$152,164, sixteenth section sources \$114,923 and state revenues \$12,574,571.

		2007	2006	2007 Net (Expense) Revenue	2006 Net (Expense) Revenue
Instruction	\$	10,450,821	11,745,445	(7,131,821)	(9,063,856)
Support services		5,700,491	6,619,263	(4,671,192)	(5,279,567)
Non-instructional		411,382	1,479,103	1,032,895	(71,807)
Sixteenth Section		8,404	9,218	(8,404)	(9,218)
Interest on long-term liabilities		3,855,105	311,744	(3,855,105)	175,932
Total		20,426,203	20,164,773	(14,633,627)	(14,248,516)

Chart as per Statement of Activities



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,756,655, an increase of \$125,292.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$382,686. The fund balance of Other Governmental Funds showed an increase of \$464,443. The fund balance of the Food Service Fund increased \$30,548. The fund balance for the IDEA Part B Fund remained the same and the fund balance in the MAEP Bond Fund showed an increase of \$12,987.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

Budget amounts for expenditures were increased to reflect the actual expenditures. At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount. Over the course of the year, the District revised the annual operating budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$16,782,922, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$242,939 from the previous year. One major component of this increase was the acquisition of mobile equipment as well as furniture and equipment. Total accumulated depreciation as of June 30, 2007 was \$6,326,286 and total depreciation expense for the year was \$368,099, resulting in total net capital assets of \$10,456,636.

		<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Land	\$	351,254	351,254	0%
Buildings		9,560,782	9,840,334	-3%
Improvements other than buildings		23,273	30,712	-24%
Mobile equipment		487,268	294,414	66%
Furniture and equipment		34,059	65,082	-48%
Total		<u>10,456,636</u>	<u>10,581,796</u>	-1%

Additional information of the District's capital assets can be found in Note 4 on page 36 of this report.

Debt Administration. At June 30, 2007, the District had \$915,000 general obligation bonds outstanding and \$4,726,524 in other long-term debt outstanding, of which \$545,000 is due within one year. The District maintains an AA bond rating.

		<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
General obligation bonds	\$	915,000	1,370,000	-33%
Limited obligations payable		3,910,000	4,365,000	-10%
Three mill notes payable		720,000	780,000	-8%
Compensated absences		96,524	115,186	-16%
Total		<u>5,641,524</u>	<u>6,630,186</u>	-15%

Additional information of the District's long-term debt can be found in Note 5 on page 37 of this report.

CURRENT ISSUES

The Indianola 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 Indianola School District, Highway 82 E, Indianola, MS 38751.

FINANCIAL STATEMENTS

INDIANOLA SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
<i>Cash and cash equivalents</i>	\$ 3,244,390
<i>Due from other governments</i>	564,154
<i>Inventories</i>	30,932
<i>Restricted assets</i>	26,022
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	351,254
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	9,560,782
<i>Improvements other than buildings</i>	23,273
<i>Mobile equipment</i>	487,268
<i>Furniture and equipment</i>	34,059
Total Assets	<u>14,322,134</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	2,839
<i>Due to other governments</i>	1,955
<i>Unearned revenue</i>	1,104,049
<i>Interest payable on long-term liabilities</i>	72,859
<i>Long-term liabilities (due within one year):</i>	
<i>Capital related liabilities</i>	545,000
<i>Long-term liabilities (due beyond one year)</i>	
<i>Capital related liabilities</i>	5,000,000
<i>Non-capital related liabilities</i>	96,524
Total Liabilities	<u>6,823,226</u>
NET ASSETS	
<i>Invested in Capital Assets, Net of Related Debt</i>	4,911,636
<i>Restricted Net Assets:</i>	
<i>Expendable:</i>	
<i>School-based activities</i>	1,372,031
<i>Debt service</i>	209,529
<i>Unemployment benefits</i>	32,193
<i>Non-expendable:</i>	
<i>Sixteenth section</i>	26,022
<i>Unrestricted</i>	947,497
Total Net Assets	<u>\$ 7,498,908</u>

The accompanying notes are an integral part of this statement.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental Activities:					
<i>Instruction</i>	10,450,821	499,521	2,712,823	106,656	(7,131,821)
<i>Support services</i>	5,700,491	--	1,029,299	--	(4,671,192)
<i>Noninstructional services</i>	411,382	153,754	1,290,523	--	1,032,895
<i>Sixteenth section</i>	8,404	--	--	--	(8,404)
<i>Interest on long-term liabilities</i>	3,855,105	--	--	--	(3,855,105)
Total Primary Government	<u>\$ 20,426,203</u>	<u>\$ 653,275</u>	<u>\$ 5,032,645</u>	<u>\$ 106,656</u>	<u>(14,633,627)</u>
General Revenues:					
Taxes:					
<i>General purpose levies</i>					2,041,517
<i>Debt purpose levies</i>					471,609
Unrestricted grants and contributions:					
<i>State</i>					12,574,571
<i>Federal</i>					17,183
Unrestricted investment earnings					152,164
Sixteenth section sources					114,923
Other					268,700
Total general revenues					<u>15,640,867</u>
Change in Net Assets					1,007,040
Net Assets - Beginning					6,491,868
Net Assets - Ending					<u>\$ 7,498,908</u>

The accompanying notes are an integral part of this statement.

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

	<u>General Fund</u>	<u>Food Service Fund</u>
ASSETS		
<i>Cash and cash equivalents</i>	\$ 787,218	\$ 471,867
<i>Due from other governments</i>	202,712	-
<i>Due from other funds</i>	1,199,880	22,092
<i>Inventories</i>	-	30,932
Total Assets	<u>\$ 2,189,810</u>	<u>\$ 524,891</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ -	\$ -
<i>Due to other funds</i>	1,233,559	32
<i>Unearned revenue</i>	-	-
Total Liabilities	<u>1,233,559</u>	<u>32</u>
Fund balances:		
Reserved for:		
<i>Inventory</i>	-	30,932
<i>Unemployment</i>	-	-
<i>Debt service funds</i>	-	-
<i>Permanent funds</i>	-	-
Unreserved, undesignated, reported in:		
<i>General fund</i>	956,251	-
<i>Special Revenue funds</i>	-	493,927
Total Fund Balances	<u>956,251</u>	<u>524,859</u>
Total Liabilities and Fund Balances	<u>\$ 2,189,810</u>	<u>\$ 524,891</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C

IDEA Part B Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 679,316	\$ 46,446	\$ 1,285,565	\$ 3,270,412
--	243,840	71,358	517,910
--	--	78,123	1,300,095
--	--	--	30,932
<u>\$ 679,316</u>	<u>\$ 290,286</u>	<u>\$ 1,435,046</u>	<u>\$ 5,119,349</u>
\$ --	\$ --	\$ 2,839	\$ 2,839
--	--	22,215	1,255,806
679,316	--	424,733	1,104,049
<u>679,316</u>	<u>--</u>	<u>449,787</u>	<u>2,362,694</u>
--	--	--	30,932
--	--	32,193	32,193
--	290,286	(7,898)	282,388
--	--	26,022	26,022
--	--	--	956,251
--	--	934,942	1,428,869
--	290,286	985,259	2,756,655
<u>\$ 679,316</u>	<u>\$ 290,286</u>	<u>\$ 1,435,046</u>	<u>\$ 5,119,349</u>

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

Total fund balances - governmental funds balance sheet	\$ 2,756,655
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	10,456,636
Payables for bond principal which are not due in the current period are not reported in the funds.	(4,340,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(72,859)
Payables for notes which are not due in the current period are not reported in the funds.	(660,000)
Payables for compensated absences which not due in current period are not reported in the funds.	(96,524)
Liabilities due in one year are not recognized in the funds	<u>(545,000)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 7,498,908</u>

The accompanying notes are an integral part of this statement.

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INDIANOLA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Food Service Fund
Revenue:		
<i>Local sources</i>	\$ 2,716,849	\$ 187,537
<i>State sources</i>	12,174,730	7,729
<i>Federal sources</i>	17,183	1,315,308
<i>Sixteenth section sources</i>	--	--
Total revenues	<u>14,908,762</u>	<u>1,510,574</u>
Expenditures:		
Instruction	9,024,783	--
Support services	5,653,739	101,293
Noninstructional services	13,295	1,335,008
Sixteenth section	--	--
Debt service:		
<i>Principal</i>	--	--
<i>Interest</i>	--	--
<i>Other</i>	--	--
Total expenditures	<u>14,691,817</u>	<u>1,436,301</u>
Excess (deficiency) of revenues (over) expenditures	216,945	74,273
Other financing sources (uses):		
Proceeds of bonds	--	--
Insurance loss recoveries	160,735	--
Transfers in	--	--
Other financing sources	--	6,275
Transfers out	(564,959)	(50,000)
Other financing uses	(195,407)	--
Total other financing sources (uses)	<u>(599,631)</u>	<u>(43,725)</u>
Net change in fund balance	(382,686)	30,548
Fund Balances:		
July 1, 2006	1,338,937	476,065
Increase (decrease) in reserve for inventory	--	18,246
June 30, 2007	<u>\$ 956,251</u>	<u>\$ 524,859</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

IDEA Part B Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 12,859	\$ 524,358	\$ 3,441,603
--	487,676	413,539	13,083,674
158,723	--	3,134,819	4,626,033
--	--	114,923	114,923
<u>158,723</u>	<u>500,535</u>	<u>4,187,639</u>	<u>21,266,233</u>
100,269	--	2,578,725	11,703,777
58,454	--	1,043,161	6,856,647
--	--	44,515	1,392,818
--	--	8,404	8,404
--	4,365,000	515,000	4,880,000
--	31,755	148,350	180,105
--	793	--	793
<u>158,723</u>	<u>4,397,548</u>	<u>4,338,155</u>	<u>25,022,544</u>
--	(3,897,013)	(150,516)	(3,756,311)
--	3,910,000	--	3,910,000
--	--	--	160,735
--	--	1,058,055	1,058,055
--	--	--	6,275
--	--	(443,096)	(1,058,055)
--	--	--	(195,407)
<u>--</u>	<u>3,910,000</u>	<u>614,959</u>	<u>3,881,603</u>
--	12,987	464,443	125,292
--	277,299	520,816	2,613,117
--	--	--	18,246
<u>\$ --</u>	<u>\$ 290,286</u>	<u>\$ 985,259</u>	<u>\$ 2,756,655</u>

INDIANOLA SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$ 125,292
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	257,048
The depreciation of capital assets used in governmental activities is not reported in the funds.	(368,099)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(14,109)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,820,000
Repayment of principal is an expenditure in the funds but is not an expense in the SOA.	60,000
Compensated absences reported as amount earned in SOA but as the amount paid in the funds.	18,662
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	18,246
Bond proceeds are recognized in the funds but not in the SOA.	<u>(3,910,000)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,007,040</u>

The accompanying notes are an integral part of this statement.

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

	Private-purpose Trust Fund	Agency Funds
ASSETS		
Assets:		
<i>Cash and other deposits</i>	\$ 16,463	\$ 211,406
<i>Due from other funds</i>	-	1,955
Total Assets	<u>\$ 16,463</u>	<u>\$ 213,361</u>
LIABILITIES		
Liabilities:		
<i>Accounts Payable & Accrued Liabilities</i>		158,367
<i>Salary withholdings payable</i>		5,396
<i>Due to student clubs</i>		3,354
<i>Due to other funds</i>		46,244
Total Liabilities		<u>\$ 213,361</u>
Fund equity and other credits:		
Fund balances:		
<i>Reserved for endowments</i>	\$ 16,463	
Total equity and other credits	<u>\$ 16,463</u>	

The accompanying notes are an integral part of this statement.

INDIANOLA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 321
Net (Decrease) in Fair Value of Investments	--
Employer Contributions	--
Plan Member Contributions	--
Total Additions	<u>321</u>
Deductions:	
Scholarship Awards	--
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u>--</u>
Change in Net Assets	321
Net Assets-Beginning of the Year	16,142
Net Assets-End of the Year	<u>\$ 16,463</u>

The accompanying notes are an integral part of this statement.

Indianola School District

Notes to the Financial Statements
June 30, 2007

Indianola School District

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

Indianola School District

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

not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

Food Service Fund - This fund accounts for the financial resources of the school's lunch program.

Indianola School District

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

IDEA Part B Fund - This fund accounts for the financial resources of the school's program to assist them in providing a free appropriate public education to all children with disabilities.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. 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

Indianola School District

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

the school board. State statutes specify how these depositories are to be selected.

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

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than three months when acquired. Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items in both the government-wide and governmental fund financial statements.

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.

Indianola School District

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

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. 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 5 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 or expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details of interfund transactions, including receivables and payables at year-end

Indianola School District

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

Indianola School District

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

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

M. Property Taxes.

Ad valorem property taxes are levied by the governing 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.

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.

(2) Cash and Cash Equivalents.

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

Indianola School District

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits reported in the governmental funds and fiduciary funds was \$3,270,412 and \$227,869, respectively. The carrying amount of deposits reported in government-wide statements was: cash and cash equivalents \$3,244,390 and restricted assets \$26,022. The restricted assets of \$26,022 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 program. The bank balance was \$4,825,051.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, \$799,934 of the district's bank balance of \$4,825,051 was exposed to custodial credit risk.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due from/to other funds:

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 1,199,880	1,233,559
Food Service fund	22,092	32
Other Governmental funds	78,123	22,215
Agency funds	<u>1,955</u>	<u>46,244</u>
Total Funds	<u>\$ 1,302,050</u>	<u>1,302,050</u>

The purpose of the Due From/To other funds balances was to provide funds for operating purposes. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

Indianola School District

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 0	564,959
Food Service fund	0	50,000
Other Governmental funds	<u>1,058,055</u>	<u>443,096</u>
Total Funds	<u>\$ 1,058,055</u>	<u>1,058,055</u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

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

	<u>Balance 7-1-2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-2007</u>
<u>Non-depreciable capital assets:</u>						
Land	\$ 351,254					351,254
Construction in progress	0					0
Total non-depreciable capital assets	<u>351,254</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>351,254</u>
<u>Depreciable capital assets:</u>						
Buildings	14,406,386					14,406,386
Improvements other than buildings	190,755					190,755
Mobile equipment	1,051,419	229,776				1,281,195
Furniture and equipment	540,169	27,272	14,109			553,332
Total depreciable capital assets	<u>16,188,729</u>	<u>257,048</u>	<u>14,109</u>	<u>0</u>	<u>0</u>	<u>16,431,668</u>
<u>Less accumulated depreciation for :</u>						
Buildings	4,566,052	279,552				4,845,604
Improvements other than buildings	160,043	7,439				167,482
Mobile equipment	757,005	36,922				793,927
Furniture and equipment	475,087	44,186				519,273
Total accumulated depreciation	<u>5,958,187</u>	<u>368,099</u>	<u>0</u>		<u>0</u>	<u>6,326,286</u>
Total depreciable capital assets, net	<u>10,230,542</u>	<u>(111,051)</u>	<u>14,109</u>	<u>0</u>	<u>0</u>	<u>10,105,382</u>
Governmental activities capital assets, net	<u>10,581,796</u>	<u>(111,051)</u>	<u>14,109</u>	<u>0</u>	<u>0</u>	<u>10,456,636</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$257,669
Support services	73,620
Non-Instructional	<u>36,810</u>

Indianola School District

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

Total depreciation expense **\$368,099**

(5) Long-term liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
A. General obligations bonds payable	1,370,000		455,000		915,000	465,000
B. Limited obligation bonds payable	4,365,000	3,910,000	4,365,000		3,910,000	20,000
C. Three mill notes payable	780,000		60,000		720,000	60,000
D. Compensated absences payable	115,186		18,662		96,524	0
	<u>6,630,186</u>	<u>3,910,000</u>	<u>4,898,662</u>	<u>0</u>	<u>5,641,524</u>	<u>545,000</u>

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Refunding, Series 2003	2%	03-01-2003	03-01-2009	\$ 2,660,000	915,000
Total				<u>\$ 2,660,000</u>	<u>915,000</u>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 465,000	27,450	492,450
2009	450,000	13,500	463,500
Total	<u>\$ 915,000</u>	<u>40,950</u>	<u>955,950</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to

Indianola School District

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

the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 1% of property assessments (\$70,380,000) as of October 1, 2006. This debt will be retired from the GO Bond Retirement debt service fund.

B. Limited obligations bonds.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
State Aid Capital Refunding Bonds	variable	02-06-07	03-01-18	\$ 3,910,000	3,910,000
Total				\$ <u>3,910,000</u>	<u>3,910,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,000	148,271	168,271
2009	325,000	147,531	472,531
2010	340,000	135,441	475,441
2011	355,000	122,759	477,759
2012	365,000	109,518	474,518
2013-2017	2,045,000	330,027	2,375,027
2018-2022	460,000	17,756	477,756
Total	\$ <u>3,910,000</u>	<u>1,011,303</u>	<u>4,921,303</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues from the State of Mississippi pursuant to the Mississippi Accountability and the Adequate Education Act, Sections 37-151-1 through 37-151-107 of the Mississippi Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP debt service fund.

C. Three Mill-Ten Year Notes Payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited Tax Note, Series 1998	6%	08-01-97	08-01-17	\$ <u>1,200,000</u>	<u>720,000</u>

Indianola School District

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

Total \$ 1,200,000 720,000

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 60,000	42,263	102,263
2009	65,000	38,434	103,434
2010	70,000	34,300	104,300
2011	75,000	29,859	104,859
2012	80,000	27,240	107,240
2013-2017	<u>370,000</u>	<u>60,340</u>	<u>430,340</u>
Total	\$ <u>720,000</u>	<u>232,436</u>	<u>952,436</u>

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

D. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2007 was 11.30% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$1,260,128, \$1,031,642, and \$1,017,930, respectively, which equaled the required contributions for each year.

Indianola School District

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

(7) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2008	\$ 70,304
2009	51,431
2010	48,974
2011	<u>11,241</u>
Total	\$ <u>181,950</u>

(8) 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 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson, Mississippi. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required

Indianola School District

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

by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

REQUIRED SUPPLEMENTARY INFORMATION

INDIANOLA SCHOOL DISTRICT

Exhibit 1

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,759,926	2,654,878	2,716,849	(105,048)	61,971
State sources	11,305,907	11,321,995	12,174,730	16,088	852,735
Federal sources	5,000	17,183	17,183	12,183	0
Total Revenues	<u>14,070,833</u>	<u>13,994,056</u>	<u>14,908,762</u>	<u>(76,777)</u>	<u>914,706</u>
Expenditures:					
Instruction	8,162,961	8,793,147	9,024,783	(630,186)	(231,636)
Support services	5,310,194	5,653,740	5,653,739	(343,546)	1
Noninstructional services	6,000	13,037	13,295	(7,037)	(258)
Facilities acquisition and construction	10,000			10,000	0
Debt Service					
Principal				0	0
Interest	10,000			10,000	0
Total Expenditures	<u>13,499,155</u>	<u>14,459,924</u>	<u>14,691,817</u>	<u>(960,769)</u>	<u>(231,893)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>571,678</u>	<u>(465,868)</u>	<u>216,945</u>	<u>(1,037,546)</u>	<u>682,813</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries	300,000	160,735	160,735	(139,265)	0
Other financing uses			(195,407)	0	(195,407)
Transfers In	550,000	1,753,396		1,203,396	(1,753,396)
Transfers Out	(1,500,000)	(2,297,813)	(564,959)	(797,813)	1,732,854
Total Other Financing Sources (Uses)	<u>(650,000)</u>	<u>(383,682)</u>	<u>(599,631)</u>	<u>266,318</u>	<u>(215,949)</u>
Net Change in Fund Balances	<u>(78,322)</u>	<u>(849,550)</u>	<u>(382,686)</u>	<u>(771,228)</u>	<u>466,864</u>
Fund Balances:					
July 1, 2006	1,616,344	1,616,344	1,338,937	0	(277,407)
June 30, 2007	<u>\$ 1,538,022</u>	<u>766,794</u>	<u>956,251</u>	<u>(771,228)</u>	<u>189,457</u>

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

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Food Service Fund
 For the Year Ended June 30, 2007

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Local sources	\$ 172,500	187,536	187,537	15,036	1
State sources	7,900	7,729	7,729	(171)	0
Federal sources	1,465,449	1,315,309	1,315,308	(150,140)	(1)
Total Revenues	<u>1,645,849</u>	<u>1,510,574</u>	<u>1,510,574</u>	<u>(135,275)</u>	<u>0</u>
Expenditures:					
Instruction	108,578			108,578	0
Support services	1,267,320	101,292	101,293	1,166,028	(1)
Non-instructional		1,332,679	1,335,008	(1,332,679)	(2,329)
Total Expenditures	<u>1,375,898</u>	<u>1,433,971</u>	<u>1,436,301</u>	<u>(58,073)</u>	<u>(2,330)</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>269,951</u>	<u>76,603</u>	<u>74,273</u>	<u>(193,348)</u>	<u>(2,330)</u>
Other Financing Sources (Uses):					
Other financing sources	3,500	6,275	6,275	2,775	0
Transfers out	(50,000)	(50,000)	(50,000)	0	0
Total Other Financing Sources (Uses)	<u>(46,500)</u>	<u>(43,725)</u>	<u>(43,725)</u>	<u>2,775</u>	<u>0</u>
				0	0
Net Change in Fund Balances	<u>223,451</u>	<u>32,878</u>	<u>30,548</u>	<u>(190,573)</u>	<u>(2,330)</u>
Fund Balances:					
July 1, 2006	0	0	476,065	0	476,065
Increase (Decrease) in reserve for inventory	<u>0</u>	<u>0</u>	<u>18,246</u>	<u>0</u>	<u>18,246</u>
June 30, 2007	<u>\$ 223,451</u>	<u>32,878</u>	<u>524,859</u>	<u>(190,573)</u>	<u>491,981</u>

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

INDIANOLA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 IDEA Part B Fund
 For the Year Ended June 30, 2007

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 0	0	0	0	0
Federal sources	614,251	1,104,490	158,723	490,239	(945,767)
Total Revenues	614,251	1,104,490	158,723	490,239	(945,767)
Expenditures:					
Instruction	400,317	288,926	100,269	111,391	188,657
Support services	212,932	247,109	58,454	(34,177)	188,655
Noninstructional services	1,000	0	0	1,000	0
Facilities acquisition and construction	0	0	0	0	0
Debt Service				0	0
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Other	0	0	0	0	0
Total Expenditures	614,249	536,035	158,723	78,214	377,312
Excess (Deficiency) of Revenues Over Expenditures	2	568,455	0	568,453	(568,455)
Other Financing Sources (Uses):					
Proceeds of general obligation bonds	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	2	568,455	0	568,453	(568,455)
Fund Balances:					
July 1, 2006	0	377,312	0	377,312	(377,312)
June 30, 2007	\$ 2	945,767	0	945,765	(945,767)

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

Indianola School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2007

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before 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

Indianola School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$112,106
Child Nutrition Cluster:		
School Breakfast Program	10.553	27,774
National School Lunch Program	10.555	925,430
Total child nutrition cluster		<u>953,204</u>
Total passed-through the MDE		<u>1,065,310</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>1,065,310</u>
FEDERAL COMMUNICATION COMMISSION Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	17,183
Total Federal Communication Commission		<u>17,183</u>
U. S. DEPARTMENT OF DEFENSE Direct Program:		
Reserve Officers' Training Corps	12.xxx	152,598
Total Other Federal Assistance		<u>152,598</u>
U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,259,056
Career and Technical Education - Basic Grants to States	84.048	81,392
Safe and Drug Free Schools and Communities - State Grants	84.186	27,198
State Grants for Innovative Programs	84.298	2,268
Education Technology State Grants	84.318	15,612
Gaining Early Awareness and Readiness in Undergraduate Programs	84.334	16,924
Reading First State Grants	84.357	729,155
Rural Education	84.358	75,133
Improving Teacher Quality State Grants	84.367	245,590
Total		<u>2,452,328</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	536,035
Special Education - Preschool Grants	84.173	37,851
Total special education cluster		<u>573,886</u>
Total passed-through the MDE		<u>3,026,214</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>3,026,214</u>
TOTAL FOR ALL FEDERAL AWARDS		<u><u>\$4,261,305</u></u>

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Indianola School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2007

	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 15,316,656	11,631,106	738,788	1,329,242	1,617,520
Other	9,705,887	1,685,845	154,079	77,049	7,788,915
Total	\$ <u>25,022,544</u>	<u>13,316,951</u>	<u>892,867</u>	<u>1,406,291</u>	<u>9,406,435</u>
Total number of students *	2,403				
Cost per student	\$ 10,413	5,542	372	585	3,914

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

Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100 & 2200 functional codes)

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

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

Other - includes all expenditure functions not included in Instruction or Administration categories

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

Note: includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Indianola School District

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Indianola School District as of and for the year ended June 30, 2007, which collectively comprise Indianola School District's basic financial statements and have issued our report thereon dated November 18, 2008. We did not express an opinion on the governmental activities, each major fund, and the aggregate remaining fund information because of the pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of certain uncertainties and, since we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves.

Internal Control Over Financial Reporting

During our engagement to audit the financial statements of the Indianola School District, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-1, 2007-2, 2007-3, 2007-4, and 2007-5, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above in Finding 2007-1, 2007-2 and 2007-3 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 18, 2008, which is included in this report.

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



Fortenberry & Ballard, PC
November 18, 2008

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Indianola School District

Compliance

We were engaged to audit the compliance of the Indianola School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management.

Because of the pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of certain uncertainties and, because we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves, the scope of our work was not sufficient to enable us to express an opinion and we do not express an opinion on the district's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of the district's major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with requirements, which is required to be reported in accordance with OMB A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-6.

Internal Control Over Compliance

The management of the Indianola School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

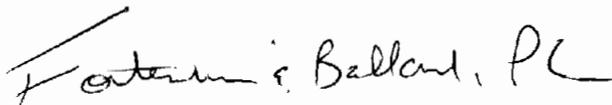
Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program(s) such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-6 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the school district's internal control. We consider the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-6 to be a material weakness.

Indianola School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Indianola School District's response and, accordingly, we express no opinion on it.

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.



Fortenberry & Ballard, PC
November 18, 2008

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Indianola School District

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Indianola School District as of and for the year ended June 30, 2007, which collectively comprise Indianola School District's basic financial statements and have issued our report thereon dated November 18, 2008. Wherein we noted that the Indianola School District does not maintain adequate and complete accounting records to provide sufficient information for the fair presentation of the basic financial statements. Since the school does not have adequate and complete records we were not able to apply other auditing procedures to satisfy ourselves as to the fair presentation of the financial statements. Except as discussed in the preceding statement 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.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(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 state laws and regulations. However, providing an opinion on compliance with 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 \$55,200 of classroom supply funds carried over from previous years.

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

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

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, 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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1:

AICPA & MSCPA
1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292

Code Section 37-9-14(7) Miss. Code Ann. (1972) prohibits the district from releasing checks for payment to vendors or employees unless there is sufficient cash in the bank account to cover such checks. There were not sufficient funds incurred by the district.

Recommendation:

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

School District's Response:

The school district will comply with Section 37-9-14(7).

Finding 2:

Section 37-6-15 requires Board members to be bonded for at least \$50,000. Section 25-1-19 requires that these bonds be recorded and on file in the chancery clerk's office. Evidence of three (3) of the Board members bond was not provided and the bonds were not recorded and on file in the chancery clerk's office.

Recommendation:

Evidence of bonds for all Board members should be on file at the district and properly recorded at the chancery clerk's office of the county.

School District's Response:

The school district will comply with Section 37-6-15.

Finding 3:

Miss. Code Ann. (1972), Section 37-9-18 requires that the Superintendent furnish to the school board a financial statement of receipts and disbursements, by funds, on or before the last working day of the following month covering the prior month. Section 37-61-21(2) also requires year end financial statements. The school district did not furnish financial statement to the school board in accordance with this Code section.

Recommendation:

The district should comply with Code Section 37-9-18 and 36-61-21(2) Miss. Code Ann. (1972) and furnish the board with monthly as well as year end financial statements.

School District's Response:

The school district will comply with Section 37-9-18 and 36-61-21(2).

Finding 4:

Section 29-3-121 requires the shared revenues to be divided according to applicable percentages derived from the appropriate list of children. The superintendent should complete a list of children and file it with the county superintendent by December 31 of each year. The school district was not able to provide any evidence that the list of children was filed as required by this section.

Recommendation:

The Superintendent should comply with 29-3-121.

School District's Response:

The school district will comply with Section 29-3-121.

Finding 5:

The school district's cash balance in the Unemployment Fund was insufficient as to the amount required by Section 71-5-359. This section requires that the balance in this fund be maintained at 2% of the covered wages paid during the next preceding year. The amount that should have been in the fund at June 30, 2007 was \$51,360. The district only had \$32,193 in the fund.

Recommendation:

The cash balance kept in the Unemployment Fund should be in compliance with Section 71-5-359.

School District's Response:

The school district will comply with Section 71-5-359.

Finding 6:

Section 37-7-301 states in part that orders should be made directed to the superintendent of schools for the issuance of pay certificates for lawful purposes on any available funds of the district and to have full control of, among other things, the distribution and allotment of all funds provided for the support and operation of the schools of such school district. This would include the transfer of funds which the local school board shall be authorized and empowered to promulgate rules and regulations that specify the types of claims and set limits of the dollar amount for payment of claims by the superintendent of schools to be ratified by the board at the next regularly scheduled meeting after payment has been made. The school district transferred funds without a prior authorization from the school board.

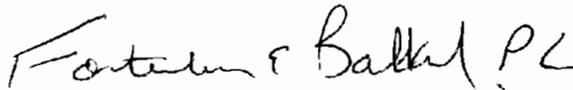
Recommendation:

The school district should make sure that transfers of funds are approved in advance by the school board.

School District's Response:

The school district will comply with Section 37-7-301.

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.



Fortenberry & Ballard, PC
November 18, 2008

Certified Public Accountants

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

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

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Disclaimer.
2. Material noncompliance relating to the financial statements? No.
3. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiency (ies) identified that are not considered to be material weaknesses? Yes.

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Disclaimer.
5. Internal control over major programs:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiencies 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? Yes.
7. Federal programs identified as major programs:
 - a. Child Nutrition Cluster:
CFDA# 10.553
CFDA# 10.555
 - b. Title I Grants to Local Educational Agencies.
CFDA# 84.010
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.
10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? Yes.

Section2: Findings Relating to the Financial Statements

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

Material Weaknesses:

2007-1 Finding

An effective system of internal controls should provide for timely and accurate bank reconciliations and an adequate record of accruals of both accounts receivable and accounts payable and other liabilities. We found that bank reconciliations were not performed. In addition, the school district did not maintain an adequate record of accruals of accounts receivable and accounts payable and other liabilities. Lack of bank reconciliations and accurate recording of accruals of accounts receivable and accounts payable and other liabilities could cause the district's accounts balances to be overstated or understated.

Because of these weaknesses, we were unable to satisfy ourselves as to the fair presentation of the financial statements for cash and other deposits, accounts receivable and accounts payable and other liabilities.

Recommendation:

The school district should reconcile the bank accounts in a timely manner. In addition, an adequate record of the accruals of accounts receivable and accounts payable and other liabilities should be maintained.

Response:

The district will reconcile the bank accounts in a timely manner and maintain an adequate record of accruals.

2007-2 Finding

Generally Accepted Accounting Principles in the United States of America require the presentation of capital asset records and the depreciation of those assets. The school district did not maintain the capital asset records nor the depreciation of these assets. The failure to have capital assets inventoried and reconciled could potentially result in overstatement or understatement of capital assets and depreciation expense or even the loss of the assets themselves.

Recommendation:

Internal controls should be implemented to ensure that the district properly maintains the capital asset records. Additions and deletions of capital assets should be reconciled to the general ledger each month and the appropriate entries made to the subsidiary ledger and depreciation schedule. A capital assets inventory should be performed each year in addition to the supply inventory as an internal control over the stewardship of these assets.

Response:

Internal controls will be implemented to ensure that the district properly maintains the capital asset records.

2007-3 Finding

Due from other funds and due to other funds are accounts that account for interfund loans between the various funds of the school district. These accounts should equal each other. The school district failed to record a due to other fund transaction in the amount of \$471,356 causing this account to be understated and, as a consequence, the fund balance in the General Fund to be overstated. An adjustment was made to properly present the due to/from other funds.

Recommendation:

The school district should ensure that interfund transactions are accurately and properly recorded.

Response:

The district will ensure that interfund transactions are accurately and properly recorded.

Significant Deficiencies:

2007-4 Finding:

Due to the lack of adequate accounting records the board did not receive accurate, timely financial statements. In addition, transfers were not approved in advance.

Recommendation:

The Board should be provided accurate and timely financial statements and transfers of funds among various funds should be approved by the Board and evidenced in writing in the Board minutes.

Response:

The district will provide accurate and timely financial statements and transfers of funds among various funds will be submitted for approval by the Board.

2007- 5 Finding:

Sixteen (16) funds of the school district were out of balance in the aggregate amount of \$22,728. The school showed one sided journal entries in some instances.

Recommendation:

Internal controls should be implemented to prevent and/or detect one sided journal entries from being recorded. These entries may cause the financial statements to be materially misstated.

Response:

Internal controls should be implemented to prevent and/or detect one sided journal entries from being recorded.

Section 3: Findings and Questioned Costs for Federal Awards

The results of our tests disclosed the following finding and questioned costs related to the federal awards.

Material Weakness:

2007- 6 Finding

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

Program: Special Education Cluster - CFDA #84.027, #84.173
U.S. Department of Education; passed through the Mississippi Department of Education

Compliance requirement: Cash Management

The district requested funds in excess of immediate need from the MS Department of Education. Federal cash management requirements allow drawdown of funds only to cover immediate needs. At June 30, 2007 both the Title I and Special Education Cluster had surplus of cash.

Question cost: None

Recommendation

The district should comply with cash management requirements and draw down cash only for immediate cash needs and/or the pass-through entity limited payments to subrecipients to immediate cash needs.

School District's Response:

The district will ensure compliance with cash management requirements and draw down cash only for immediate cash needs.

Indianola School District
Highway 82 E
Indianola, MS 38751
King David Rush - Superintendent
Gwendolyn Durham - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Indianola School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2007:

Finding	Corrective Action Plan Details
2007-1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p style="padding-left: 40px;">Name: King David Rush Title: Superintendent Phone Number: 662-887-2654</p> <p>b. Corrective Action Planned: The district will reconcile the bank accounts in a timely manner and maintain an adequate record of accruals.</p> <p>c. Anticipated Completion Date: 06-30-08</p>
2007-2	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p style="padding-left: 40px;">Name: King David Rush Title: Superintendent Phone Number: 662-887-2654</p> <p>b. Corrective Action Planned: Internal controls will be implemented to ensure that the district properly maintains the capital asset records.</p> <p>c. Anticipated Completion Date: 06-30-08</p>
2007-3	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p style="padding-left: 40px;">Name: King David Rush Title: Superintendent Phone Number: 662-887-2654</p> <p>b. Corrective Action Planned: The district will ensure that interfund transactions are accurately and properly recorded.</p>

c. Anticipated Completion Date: 06-30-08

2007-4

a. Name of Contact Person Responsible for Corrective Action:

Name: King David Rush
Title: Superintendent
Phone Number: 662-887-2654

b. Corrective Action Planned:

The district will provide accurate and timely financial statements and transfers of funds among various funds will be submitted for approval by the Board.

c. Anticipated Completion Date: 06-30-08

2007-5

a. Name of Contact Person Responsible for Corrective Action:

Name: King David Rush
Title: Superintendent
Phone Number: 662-887-2654

b. Corrective Action Planned:

Internal controls should be implemented to prevent and/or detect one sided journal entries from being recorded.

c. Anticipated Completion Date: 06-30-08

2007-6

a. Name of Contact Person Responsible for Corrective Action:

Name: King David Rush
Title: Superintendent
Phone Number: 662-887-2654

b. Corrective Action Planned:

The district will ensure compliance with cash management requirements and draw down cash only for immediate cash needs.

c. Anticipated Completion Date: 06-30-08

AUDITEE'S SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Indianola School District
Highway 82 E
Indianola, MS 38751
King David Rush - Superintendent
Gwendolyn Durham - Business Manager

AUDITEE'S SUMMARY OF PRIOR YEAR AUDIT FINDINGS

As required by Section __.315(b) of OMB Circular A-133, the Indianola School District has prepared and hereby submits the following summary of prior year audit findings as of June 30, 2007:

<u>Finding</u>	<u>Status</u>
06-01	Corrected
06-02	Corrected