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OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2015**

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Okolona Municipal Separate School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona Municipal Separate School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Okolona Municipal Separate School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Okolona Municipal Separate School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 5-11, 43-48, 49 and 50, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Okolona Municipal Separate School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016, on our consideration of the Okolona Municipal Separate School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Okolona Municipal Separate School District's internal control over financial reporting and compliance.

Okolona, Mississippi
March 10, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

The following discussion and analysis of Okolona Municipal Separate School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$6,821,445, including a prior period adjustment of (\$7,449,855), which represents a 267% decrease from fiscal year 2014. Total net position for 2014 increased \$450,919, including a prior period adjustment of (\$28,757), which represents a 21% increase from fiscal year 2013.
- General revenues amounted to \$5,151,416 and \$5,032,150, 72% and 71% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,976,625, or 28% of total revenues for 2015, and \$2,065,431 or 29% of total revenues for 2014.
- The District had \$6,499,631 and \$6,617,905 in expenses for fiscal years 2015 and 2014; only \$1,976,625 for 2015 and \$2,065,431 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$5,151,416 for 2015 and \$5,032,150 for 2014 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$4,876,219 in revenues and \$4,356,478 in expenditures for 2015 and \$4,814,978 in revenues and \$4,170,849 in expenditures in 2014. The General Fund's fund balance increased \$10,470 from 2014 to 2015, and increased by \$159,125, including a prior period adjustment of (\$28,757), from 2013 to 2014,.
- Capital assets, net of accumulated depreciation, increased by \$36,775 for 2015 and decreased by \$35,258 for 2014. The increase in net capital assets for 2015 was due primarily to the beginning of construction projects related to the general obligation bond proceeds.
- Long-term debt increased by \$1,675,496 for 2015 and decreased by \$200,419 for 2014. This increase was due primarily to the issuance of general obligation bonds in the current year. The liability for compensated absences increased by \$6,970 for 2015 and decreased by \$4,418 for 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net position". Over time, increases or decreases in the District's net position 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 position changed during the most recent fiscal year. All changes in net position 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 periods.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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, pension expense, and interest on long-term liabilities.

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: Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental fund financial statements.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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 immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board. Additionally, the schedule of the district's proportionate share of the net pension liability and the schedule of the district's contributions are presented in this section.

Supplemental Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances-General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$4,269,371 as of June 30, 2015.

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.

Table 1 presents a summary of the District's net position at June 30, 2015 and 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Table 1
Condensed Statement of Net Position

	June 30, 2015	June 30, 2014	Percentage Change
Current assets	\$ 3,709,531	\$ 1,572,453	135.91 %
Restricted assets	322,662	276,789	16.57 %
Capital assets, net	2,704,700	2,667,925	1.38 %
Total assets	6,736,893	4,517,167	49.14 %

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Deferred outflows of resources	639,793	-	N/A %
Current liabilities	293,836	92,036	219.26 %
Long-term debt outstanding	3,561,312	1,873,057	90.13 %
Net pension liability	6,348,263	-	N/A %
Total liabilities	10,203,411	1,965,093	419.23 %
Deferred inflows of resources	1,442,646	-	N/A %
Net position:			
Net investment in capital assets	181,686	1,984,196	(90.84) %
Restricted	2,617,196	646,515	304.82 %
Unrestricted	(7,068,253)	(78,637)	8,888.46 %
Net position (deficit)	\$ (4,269,371)	\$ 2,552,074	(267.29) %

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, managements presents the following additional information:

Total unrestricted net position (deficit)	\$ (7,068,253)
Effect of pension liability transactions	
Net pension liability	\$ 6,348,263
Deferred outflows of resources from pension obligations	(639,793)
Deferred inflows of resources from pension obligations	1,442,646
Unrestricted net position exclusive of the net pension liability effect	<u>\$ 82,863</u>

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

- Increase in current liabilities and long-term debt outstanding of \$1,890,055, due primarily to the issuance of general obligation bonds.
- Increase in current assets of \$2,137,078 due primarily to the proceeds of general obligation bonds that have not yet been expended on construction projects.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$7,128,041 and \$7,097,581, respectively. The total cost of all programs and services was \$6,499,631 for 2015 and \$6,617,905 for 2014. Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

Table 2 presents a summary of changes in net position for the years ended June 30, 2015 and 2014.

GASB 68 was implemented in fiscal year 2015. Prior year financial statements were not restated to reflect the implementation of GASB 68. However, in the table below prior year pension contributions were reflected as pension expense in 2014 for comparison purposes.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Table 2
Changes in Net Position

	Year Ended June 30, 2015	Year Ended June 30, 2014	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 104,547	\$ 87,093	20.04 %
Operating grants and contributions	1,872,078	1,978,338	(5.37) %
General revenues:			
Property taxes	1,375,318	1,257,251	9.39 %
Grants and contributions not restricted	3,710,859	3,739,983	(0.78) %
Investment earnings	17,094	17,592	(2.83) %
Other	48,145	17,324	177.91 %
Total revenues	7,128,041	7,097,581	0.43 %
Expenses:			
Instruction	3,241,117	3,130,244	3.54 %
Support services	2,604,655	2,455,265	6.08 %
Non-instructional	371,722	489,295	(24.03) %
Pension expense	242,023	503,453	(51.93) %
Interest on long-term liabilities	40,114	39,648	1.18 %
Total expenses	6,499,631	6,617,905	(1.79) %
Increase (Decrease) in net position	628,410	479,676	31.01 %
Net Position (Deficit), July 1, as previously reported	2,552,074	2,101,155	21.46 %
Prior Period Adjustment	(7,449,855)	(28,757)	(25,806.23) %
Net Position (Deficit), July 1, as restated	(4,897,781)	2,072,398	(336.33) %
Net Position (Deficit), June 30	\$ (4,269,371)	\$ 2,552,074	(267.29) %

Governmental activities

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

GASB 68 was implemented in fiscal year 2015. Prior year financial statements were not restated to reflect the implementation of GASB 68. However, in the table below prior year pension contributions were reflected as pension expense in 2014 for comparison purposes.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2015	2014	
Instruction	\$ 3,241,117	\$ 3,130,244	3.54 %
Support services	2,604,655	2,455,265	6.08 %
Non-instructional	371,722	489,295	(24.03) %
Pension expense	242,023	503,453	(51.93) %
Interest on long-term liabilities	40,114	39,648	1.18 %
Total expenses	\$ 6,499,631	\$ 6,617,905	(1.79) %

	Net (Expense) Revenue		Percentage Change
	2015	2014	
Instruction	\$ (2,517,389)	\$ (2,342,024)	7.49 %
Support services	(1,788,996)	(1,700,394)	5.21 %
Non-instructional	65,516	33,045	98.26 %
Pension expense	(242,023)	(503,453)	(51.93) %
Interest on long-term liabilities	(40,114)	(39,648)	1.18 %
Total net (expense) revenue	\$ (4,523,006)	\$ (4,552,474)	(0.65) %

- Net cost of governmental activities (\$4,523,006 for 2015 and \$4,552,474 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$1,375,318 for 2015 and \$1,257,251 for 2014) and state and federal revenues (\$3,710,859 for 2015 and \$3,739,983 for 2014).
- Investment earnings amounted to \$48,145 for 2015 and \$17,592 for 2014.

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, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,754,970, an increase of \$1,988,424, which includes an increase in inventory of \$1,262. \$564,758 or 15% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$3,190,212 or 85% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$10,470. The fund balance of Other Governmental Funds showed an increase in the amount of \$475,867, which includes an increase in reserve for inventory of \$1,262, due primarily to issuance of

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

the 2014 general obligation bond of \$400,000 that was included in Other Governmental Funds in 2015. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Fund	\$ no increase or decrease
Title SIG 1003a Grant Fund	no increase or decrease
Title II Improving Teacher Quality Fund	no increase or decrease
Vocational Basic Fund	(21,072)
Title IV-B 21st Century Learning Fund	no increase or decrease
GO Bond Series 2015 Capital Projects Fund	1,523,159

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$5,961,027, including land, school buildings, building and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$130,734 from 2014. Total accumulated depreciation as of June 30, 2015, was \$3,256,327, and total depreciation expense for the year was \$93,959, resulting in total net capital assets of \$2,704,700.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 77,760	\$ 77,760	0.00 %
Construction in Progress	97,283	-	N/A %
Buildings	2,318,680	2,374,806	(2.36) %
Building improvements	96,268	100,539	(4.25) %
Mobile equipment	54,595	54,595	0.00 %
Furniture and equipment	51,020	35,637	43.17 %
Leased property under capital lease	9,094	24,588	(63.01) %
Total	\$ 2,704,700	\$ 2,667,925	1.38 %

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Debt Administration. At June 30, 2015, the District had \$3,555,523 in outstanding long-term debt, of which \$445,173 is due within one year. The liability for compensated absences increased \$6,970 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 2,000,000	\$ -	N/A %
Limited obligation bonds payable	435,000	570,000	(23.68) %
Obligations under capital leases	82,225	113,729	(27.70) %
Qualified zone academy bonds payable	500,000	500,000	0.00 %
Other loans payable	512,000	670,000	(23.58) %
Compensated absences payable	26,298	19,328	36.06 %
Total	\$ 3,555,523	\$ 1,873,057	89.82 %

Additional information of the District's long-term debt can be found at Note 6 included in this report.

CURRENT ISSUES

In February 2010, the Governor of the State of Mississippi declared Okolona Municipal Separate School District to be in a state of emergency due to academic and financial impairments, and the State Board of Education appointed a conservator to control the operations of the district. On January 7, 2013, the State Board of Education turned the school district back over to the school board. This year the district has improved financially as evidenced in the Statement of Activities, and considerable steps have been made by the district to improve the academic and financial impairments that resulted in the state of emergency.

Since that time, the district has made continued academic and financial improvements. It has improved its academic rating and classification in the last three academic years. Also in June 2014, the district was declared "financially solvent" by the state board of education, resulting in the beginning of the repayment of the \$550,000 Mississippi Department of Education loan, with the first payment made this year in June 2015. The district has assigned \$440,000 of the general fund's fund balance for the repayment of this loan.

The personnel of Okolona Municipal Separate School District remain committed to excellence in all areas of the district and are focused on constant improvement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report or need additional financial information, contact the Superintendent's Office of the Okolona Municipal Separate School District, P.O. Box 510, Okolona, MS 38860.

FINANCIAL STATEMENTS

Okolona Municipal Separate School District
Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,168,636
Restricted cash	570
Cash with fiscal agents	22,067
Investments	321,025
Due from other governments	503,199
Other receivables, net	9,111
Inventories	7,585
Capital assets, non-depreciable:	
Land	77,760
Construction in progress	97,283
Capital assets, net of accumulated depreciation:	
Buildings	2,318,680
Building improvements	96,268
Mobile equipment	54,595
Furniture and equipment	51,020
Leased property under capital leases	9,094
Total Assets	<u>6,736,893</u>
Deferred Outflows of Resources	
Pensions	639,793
Total Deferred Outflows of Resources	<u>639,793</u>
Liabilities	
Accounts payable and accrued liabilities	276,509
Unearned revenue	714
Interest payable on long-term liabilities	16,613
Long-term liabilities, due within one year:	
Capital related liabilities	263,173
Non-capital related liabilities	182,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	2,254,052
Capital related bond premium	5,789
Non-capital related liabilities	856,298
Net pension liability	6,348,263
Total Liabilities	<u>10,203,411</u>
Deferred Inflows of Resources	
Pensions	1,442,646
Total Deferred Inflows of Resources	<u>1,442,646</u>
Net Position	
Net investment in capital assets	181,686
Restricted for:	
Expendable:	
School-based activities	216,246
Debt service	551,545
Capital improvements	1,777,843
Unemployment benefits	45,992
Non-expendable:	
Permanent fund principal	25,570
Unrestricted	(7,068,253)
Net Position (Deficit)	<u>\$ (4,269,371)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
Statement of Activities
For The Year Ended June 30, 2015

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
Instruction	\$ 3,241,117	87,020	636,708	-	\$ (2,517,389)
Support services	2,604,655	-	815,659	-	(1,788,996)
Non-instructional	371,722	17,527	419,711	-	65,516
Pension expense	242,023	-	-	-	(242,023)
Interest on long-term liabilities	40,114	-	-	-	(40,114)
Total Governmental Activities	\$ 6,499,631	104,547	1,872,078	-	\$ (4,523,006)

General Revenues:

Taxes:

General purpose levies	1,178,808
Debt purpose levies	196,510

Unrestricted grants and contributions:

State	3,648,308
Federal	62,551
Unrestricted investment earnings	17,094
Other	48,145

Total General Revenues 5,151,416

Change in Net Position 628,410

Net Position (Deficit) - Beginning, as previously reported 2,552,074

Prior Period Adjustments (7,449,855)

Net Position (Deficit) - Beginning, as restated (4,897,781)

Net Position (Deficit) - Ending \$ (4,269,371)

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
 Governmental Funds
 Balance Sheet
 June 30, 2015

Exhibit C

	Major Funds								Total Governmental Funds
	General Fund	Title I Fund	Title SIG 1003a Grant Fund	Title II Improving Teacher Quality Fund	Vocational Basic Fund	Title IV-B 21st Century Learning Fund	GO Bond Series 2015 Capital Projects Fund	Other Governmental Funds	
Assets									
Cash and cash equivalents	\$ 902,528	-	-	-	-	-	1,605,209	660,899	\$ 3,168,636
Restricted cash	570	-	-	-	-	-	-	13,067	570
Cash with fiscal agents	9,000	-	-	-	-	-	-	321,025	22,067
Investments	-	-	-	-	-	-	-	321,025	321,025
Due from other governments	53,860	112,724	76,000	48,709	4,566	65,955	-	141,385	503,199
Due from other funds	179,518	-	-	1,607	256	-	-	-	181,381
Inventories	-	-	-	-	-	-	-	7,585	7,585
Total assets	\$ 1,145,476	112,724	76,000	50,316	4,822	65,955	1,605,209	1,143,961	\$ 4,204,463
Liabilities and Fund Balances									
Liabilities:									
Accounts payable and accrued liabilities	\$ 19,206	86,065	70,131	7,519	2,249	-	82,050	338	\$ 267,558
Due to other funds	-	26,659	5,869	41,190	-	65,955	-	32,597	172,270
Unearned revenue	-	-	-	-	-	-	-	714	714
Other payables	5,109	-	-	-	-	-	-	3,842	8,951
Total Liabilities	24,315	112,724	76,000	48,709	2,249	65,955	82,050	37,491	449,493
Fund Balances:									
Nonspendable:									
Inventory	-	-	-	-	-	-	-	7,585	7,585
Permanent fund principal	-	-	-	-	-	-	-	25,570	25,570
Restricted:									
Debt service	-	-	-	-	-	-	-	568,158	568,158
Capital projects	-	-	-	-	-	-	1,523,159	254,684	1,777,843
Grant activities	-	-	-	1,607	2,573	-	-	204,481	208,661
Unemployment benefits	-	-	-	-	-	-	-	45,992	45,992
Assigned:									
Activity funds	116,403	-	-	-	-	-	-	-	116,403
MDE loan repayment	440,000	-	-	-	-	-	-	-	440,000
Unassigned	564,758	-	-	-	-	-	-	-	564,758
Total Fund Balances	1,121,161	-	-	1,607	2,573	-	1,523,159	1,106,470	3,754,970
Total Liabilities and Fund Balances	\$ 1,145,476	112,724	76,000	50,316	4,822	65,955	1,605,209	1,143,961	\$ 4,204,463

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
 Governmental Funds

Exhibit C-1

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2015

Total fund balances for governmental funds \$ 3,754,970

Amounts reported for governmental activities in the statement of net position are different because:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 77,760	
Construction in progress	97,283	
Buildings	4,562,108	
Building improvements	106,784	
Mobile equipment	545,949	
Furniture and equipment	399,741	
Leased property under capital leases	171,402	
Accumulated depreciation	<u>(3,256,327)</u>	2,704,700

- Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(6,348,263)	
Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions	639,793	
Deferred inflows of resources related to pensions	<u>(1,442,646)</u>	(7,151,116)

- Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	\$ (2,000,000)	
Limited obligation bonds	(435,000)	
Capital lease obligations	(82,225)	
QZAB Bonds Payable	(500,000)	
Other notes payable	(512,000)	
Compensated absences	(26,298)	
Unamortized premiums	(5,789)	
Accrued interest payable	<u>(16,613)</u>	(3,577,925)

Net position of governmental activities \$ (4,269,371)

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For The Year Ended June 30, 2015

Exhibit D

	Major Funds								Total Governmental Funds
	General Fund	Title I Fund	Title SIG 1003a Grant Fund	Title II Improving Teacher Quality Fund	Vocational Basic Fund	Title IV-B 21st Century Learning Fund	GO Bond Series 2015 Capital Projects Fund	Other Governmental Funds	
Revenues:									
Local sources	\$ 1,313,764	-	-	-	-	-	-	231,338	\$ 1,545,102
State sources	3,499,904	-	-	-	230,321	-	-	202,408	3,932,633
Federal sources	62,551	497,175	155,765	115,333	16,122	197,582	-	605,778	1,650,306
Total Revenues	4,876,219	497,175	155,765	115,333	246,443	197,582	-	1,039,524	7,128,041
Expenditures:									
Instruction	2,439,506	165,472	50,984	26,999	633,627	144,326	-	71,886	3,532,800
Support services	1,789,036	354,626	104,719	52,081	132,590	48,629	20,670	243,664	2,746,015
Noninstructional services	-	12,077	-	-	-	-	-	401,148	413,225
Facilities acquisition and construction	-	-	-	-	-	-	62,281	35,002	97,283
Debt service:									
Principal	123,914	-	-	-	-	-	-	200,590	324,504
Interest	4,022	-	-	-	-	-	-	26,590	30,612
Other	-	-	-	-	-	-	-	2,550	2,550
Total Expenditures	4,356,478	532,175	155,703	79,080	766,217	192,955	82,951	981,430	7,146,989
Excess (Deficiency) of Revenues over (under) Expenditures	519,741	(35,000)	62	36,253	(519,774)	4,627	(82,951)	58,094	(18,948)
Other Financing Sources (Uses):									
Bonds and notes issued	-	-	-	-	-	-	1,600,000	400,000	2,000,000
Premiums on bonds issued	-	-	-	-	-	-	6,110	-	6,110
Payment held by QZAB escrow agent	-	-	-	-	-	-	-	33,926	33,926
Payment to QZAB bond escrow agent	-	-	-	-	-	-	-	(33,926)	(33,926)
Operating transfers in	16,984	35,000	-	-	498,702	-	-	27,553	578,239
Operating transfers out	(526,255)	-	(62)	(36,253)	-	(4,627)	-	(11,042)	(578,239)
Total Other Financing Sources (Uses)	(509,271)	35,000	(62)	(36,253)	498,702	(4,627)	1,606,110	416,511	2,006,110
Net Change in Fund Balances	10,470	-	-	-	(21,072)	-	1,523,159	474,605	1,987,162
Fund Balances:									
July 1, 2014	1,110,691	-	-	1,607	23,645	-	-	630,603	1,766,546
Increase (Decrease) in reserve for inventory	-	-	-	-	-	-	-	1,262	1,262
June 30, 2015	\$ 1,121,161	-	-	1,607	2,573	-	1,523,159	1,106,470	\$ 3,754,970

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
 Governmental Funds
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For The Year Ended June 30, 2015

Exhibit D-1

Net change in fund balances - total governmental funds \$ 1,987,162

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 130,734	
Depreciation expense	<u>(93,959)</u>	36,775

2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(2,000,000)	
Premiums on bonds and refunding bonds issued	(6,110)	
Payments of debt principal	324,504	
Accrued interest payable	<u>(7,273)</u>	(1,688,879)

3. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(6,970)	
Change in inventory reserve	1,262	
Bond premiums	321	
District pension contributions	540,762	
Pension expense	<u>(242,023)</u>	293,352

Change in net position of governmental activities \$ 628,410

The accompanying notes to financial statements are an integral part of these financial statements.

Okolona Municipal Separate School District
 Fiduciary Funds
 Statement of Fiduciary Assets and Liabilities
 June 30, 2015

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 19,895
Total Assets	<u>\$ 19,895</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 3,901
Due to other funds	9,111
Due to student clubs	6,883
Total Liabilities	<u>\$ 19,895</u>

The accompanying notes to financial statements are an integral part of these financial statements.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Okolona since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Okolona Municipal Separate School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Fund Financial Statements – Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title I Fund – This is a special revenue fund that accounts for the revenues and expenditures of Title I federal revenues administered by the U.S. Department of Education.

Title SIG 1003a Grant Fund – This is a special revenue fund that accounts for the revenues and expenditures of the School Improvement Grant, subpart 1003a, federal revenues administered by the U.S. Department of Education.

Title II Improving Teacher Quality Fund – This is a special revenue fund that accounts for the revenues and expenditures of Title II federal revenues administered by the U.S. Department of Education.

Vocational Basic Fund – This is a special revenue fund that accounts for the revenues and expenditures of the vocational programs of the district funded by state and federal revenues.

Title IV-B 21st Century Learning Fund – This is a special revenue fund that accounts for the revenues and expenditures of the Twenty-First Century Community Learning Centers Grant administered by the U.S. Department of Education.

GO Bond Series 2015 Capital Projects Fund – This is a capital projects fund that accounts for the construction expenditures from the bond proceeds of the district's General Obligation Bonds, Series 2015.

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

The school district also reports fiduciary funds which focus on net position and changes in net position. The district maintains seventeen (17) agency funds that the district holds in a purely custodial fashion.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi 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.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 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.

D. Encumbrances

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

E. Assets, liabilities, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

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 an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects) bond sinking funds (Debt Service Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,169,206 and \$19,895, respectively.

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 institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2015, none of the district's bank balance of \$3,893,626 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$22,067.

Investments

As of June 30, 2015, the district had the following investments.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Investment Type	Rating	Maturities (in years)	Fair Value
Hancock Horizon Treasury Securities			
Money Market Mutual Funds	AAAm	Less than 1	\$ 5,000
U.S. Government Securities	AA	More than 5	291,025
Certificate of deposit	N/A	Less than 1	25,000
			<u>\$ 321,025</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investments in the Hancock Horizon Treasury Securities Money Market Mutual Funds are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 26,659
General Fund	Title SIG 1003a Grant Fund	5,869
General Fund	Title II Improving Teacher Quality	41,190
General Fund	Title IV-B 21st Century	65,955
General Fund	Other governmental funds	30,734
General Fund	Fiduciary Funds	9,111
Title II Improving Teacher Quality	Other governmental funds	1,607
Vocational Basic Fund	Other governmental funds	256
		<u>\$ 181,381</u>

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

The amounts due to or due from other funds primarily represent amounts loaned between funds for timing differences between revenues and expenditures and cash balances.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Vocational Basic Fund	\$ 498,702
General Fund	Other governmental funds	27,553
Title SIG 1003a Grant Fund	General Fund	62
Title II Improving Teacher Quality	Title I Fund	35,000
Title II Improving Teacher Quality	General Fund	1,253
Title IV-B 21st Century	General Fund	4,627
Other governmental funds	General Fund	11,042
		\$ 578,239

The transfers represent board approved operating transfers for school operations and planning purposes.

Note 4 – Restricted Assets

The restricted assets represent the cash balance of \$570 of the E.E. Davis Trust Fund (Permanent Fund) which is restricted but may be used for purposes that support the district's programs.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Note 5 – Capital Assets

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

Governmental Activities:	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
<u>Non-depreciable capital assets:</u>				
Land	\$ 77,760			\$ 77,760
Constuction in progress	-	97,283		97,283
Total non-depreciable capital assets	77,760	97,283	-	175,043
<u>Depreciable capital assets:</u>				
Buildings	4,562,108			4,562,108
Building improvements	106,784			106,784
Mobile equipment	545,949			545,949
Furniture and equipment	366,290	33,451		399,741
Leased property under capital lease	171,402			171,402
Total depreciable capital assets	5,752,533	33,451	-	5,785,984
<u>Less accumulated depreciation for:</u>				
Buildings	2,187,302	56,126		2,243,428
Building improvements	6,245	4,271		10,516
Mobile equipment	491,354			491,354
Furniture and equipment	330,653	18,068		348,721
Leased property under capital lease	146,814	15,494		162,308
Total accumulated depreciation	3,162,368	93,959	-	3,256,327
Total depreciable capital assets, net	2,590,165	(60,508)	-	2,529,657
Governmental activities capital assets, net	\$ 2,667,925	36,775	-	\$ 2,704,700

Depreciation expense was charged to the following governmental functions:

Governmental activities:	Amount
Instruction	\$ 65,771
Support services	18,792
Non-instructional services	9,396
Total depreciation expense-governmental activities	\$ 93,959

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Construction in progress is composed of:

Governmental Activities:	Spent to June 30, 2015	Remaining Commitment
HVAC upgrades	\$ 31,006	\$ 569,640
Re-roofing project	45,947	559,231
Football Field House - Phase 1	20,330	234,776
Total governmental activities	<u>\$ 97,283</u>	<u>\$ 1,363,647</u>

Construction projects included in governmental activities are funded with proceeds from general obligation bonds.

Note 6 – Long-term Liabilities

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

Description	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. General obligations bonds payable	\$	2,000,000		\$ 2,000,000	90,000
B. Limited obligations bonds payable	570,000		135,000	435,000	140,000
C. Obligations under capital leases	113,729		31,504	82,225	33,173
D. Qualified zone academy bonds	500,000			500,000	
E. Other loans payable	670,000		158,000	512,000	182,000
F. Compensated absences payable	19,328	6,970		26,298	
Total	<u>1,873,057</u>	<u>2,006,970</u>	<u>324,504</u>	<u>3,555,523</u>	<u>445,173</u>
Bond Premium		6,110	321	5,789	
Total	<u>\$ 1,873,057</u>	<u>2,013,080</u>	<u>324,825</u>	<u>\$ 3,561,312</u>	<u>445,173</u>

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. GO Bonds, Series 2014	3.95%	12/1/2014	6/01/2025	\$ 400,000	\$ 400,000
2. GO Bonds, Series 2015	3.0-4.00%	6/25/2015	9/01/2032	1,600,000	1,600,000
Total				<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

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

1. GO Bonds, Series 2014

Year Ending June 30	Principal	Interest	Total
2016	\$ 25,000	23,700	48,700
2017	25,000	14,813	39,813
2018	31,000	13,825	44,825
2019	26,000	12,600	38,600
2020	54,000	11,574	65,574
2021-2025	239,000	29,468	268,468
Total	<u>\$ 400,000</u>	<u>105,980</u>	<u>505,980</u>

This debt will be retired from the GO Bond Series 2014 Debt Service Fund.

2. GO Bonds, Series 2015

Year Ending June 30	Principal	Interest	Total
2016	\$ 65,000	38,529	103,529
2017	35,000	55,350	90,350
2018	35,000	54,300	89,300
2019	35,000	53,250	88,250
2020	70,000	51,325	121,325
2021-2025	325,000	217,125	542,125
2026-2030	620,000	139,776	759,776
2031-2033	415,000	23,900	438,900
Total	<u>\$ 1,600,000</u>	<u>633,555</u>	<u>2,233,555</u>

This debt will be retired from the GO Bond Series 2015 Debt Service Fund.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 90,000	62,229	152,229
2017	60,000	70,163	130,163
2018	66,000	68,125	134,125
2019	61,000	65,850	126,850
2020	124,000	62,899	186,899
2021-2025	564,000	246,593	810,593
2026-2030	620,000	139,776	759,776
2031-2033	415,000	23,900	438,900
Total	<u>\$ 2,000,000</u>	<u>739,535</u>	<u>2,739,535</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2015, the amount of outstanding bonded indebtedness was equal to 13% of property assessments as of October 1, 2014.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement					
Refunding Bonds, Series 2008	3.50-4.00%	8/28/2008	3/01/2018	\$ 1,310,000	\$ 435,000
Total				<u>\$ 1,310,000</u>	<u>\$ 435,000</u>

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 140,000	16,700	156,700
2017	145,000	11,800	156,800
2018	150,000	6,000	156,000
Total	<u>\$ 435,000</u>	<u>34,500</u>	<u>469,500</u>

This debt will be retired from the MAEP Bond Issue Fund.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

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

C. Obligations under capital leases

The school district has entered into a lease agreement as lessee for financing the acquisition of Cafeteria Equipment for \$150,000 with a down payment of \$0. This lease qualifies as a capital lease for accounting purposes.

The school district has entered into a lease agreement as lessee for financing the acquisition of School Buses at a cost of \$127,950, refinanced at \$117,354. This lease qualifies as a capital lease for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Series 2006A- Equipment	5.08%	5/23/2006	4/10/2016	\$ 150,000	18,495
2. Series 2011A- Buses	5.42%	8/16/2011	4/10/2019	117,354	63,730
Total				\$ 267,354	82,225

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

1. Series 2006A- Equipment

Year Ending June 30	Principal	Interest	Total
2016	\$ 18,495	708	19,203
Total	\$ 18,495	708	19,203

This debt will be retired from the School Lunchroom Fund.

2. Series 2011A- Buses

Year Ending June 30	Principal	Interest	Total
2016	\$ 14,678	3,258	17,936
2017	15,485	2,452	17,937
2018	16,335	1,601	17,936
2019	17,232	704	17,936
Total	\$ 63,730	8,015	71,745

This debt will be retired from the District Maintenance Fund.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Total obligations under capital lease payments for all issues:

Year Ending June 30	Principal	Interest	Total
2015	33,173	3,966	37,139
2016	15,485	2,452	17,937
2017	16,335	1,601	17,936
2018	17,232	704	17,936
Total	<u>\$ 82,225</u>	<u>8,723</u>	<u>90,948</u>

D. Qualified zone academy bonds payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. QZAB, Series 2005	0.00%	11/10/2005	12/15/2014	\$ 250,000	250,000
2. QZAB, Series 2008	0.00%	5/15/2008	7/15/2018	250,000	250,000
Total				<u>\$ 500,000</u>	<u>500,000</u>

E. Other loans payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited tax note	3.70%	10/05/2005	10/01/2015	\$ 350,000	72,000
2. Emergency note	0.00%	6/25/2010	6/1/2019	550,000	440,000
Total				<u>\$ 900,000</u>	<u>512,000</u>

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

1. Limited tax note

Year Ending June 30	Principal	Interest	Total
2016	\$ 72,000	1,332	73,332
Total	<u>\$ 72,000</u>	<u>1,332</u>	<u>73,332</u>

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

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

2. Emergency note

Year Ending June 30	Principal	Interest	Total
2016	\$ 110,000	0	110,000
2017	110,000	0	110,000
2018	110,000	0	110,000
2019	110,000	0	110,000
Total	\$ 440,000	0	440,000

This debt will be retired from the MDE Loan Repayment Fund.

Total other loans payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 182,000	1,332	183,332
2017	110,000	0	110,000
2018	110,000	0	110,000
2019	110,000	0	110,000
Total	\$ 512,000	1,332	513,332

F. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$540,762, \$503,453, and \$500,283, respectively, which equaled the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school district reported a liability of \$6,348,263 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.0523 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$242,023. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99,031	\$
Net difference between projected and actual earnings on pension plan investments		920,227
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions		522,419
Entity's contributions subsequent to the measurement date	540,762	
Total	\$ 639,793	\$ 1,442,646

\$540,762 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflows	Deferred Inflows
2016	35,623	417,977
2017	35,623	417,977
2018	27,785	376,636
2019	-	230,056
Total	99,031	1,442,646

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	<u>100 %</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease	Current	1% Increase
	(7.00%)	Discount Rate (8.00%)	(9.00%)
Entity's proportionate share of the net pension liability	\$ <u>8,654,575</u>	\$ <u>6,348,262</u>	\$ <u>4,424,455</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Note 8 – Prior Period Adjustment

A summary of the significant Net Position/Fund Balance adjustment is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	(7,953,308)
Deferred outflows - contributions made during fiscal year 2014	<u>503,453</u>
Total prior period adjustment related to GASB 68 and 71	<u>\$ (7,449,855)</u>

Note 9 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 10 – Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Worker's 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 77 school districts and covers risks of loss arising from injuries to the members' 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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000 MSBAWCT has insurance which will pay the excess to the statutory amount required 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.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
Notes to Financial Statements

Note 11 – Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark Bank, has entered into such an arrangement dated November 10, 2005, and May 15, 2008, respectively.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before December 1 of each year starting in 2006 and ending in 2018. The amount on deposit at June 30, 2015 was \$291,025. The amount accumulated in the sinking fund at the end of the 12-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2016	\$ 9,300
2017	85,400
2018	88,000
2019	25,100
Total	\$ <u>207,800</u>

Note 12 – Subsequent Event

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Okolona Municipal Separate School District evaluated the activity of the district through March 10, 2016, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred that would require disclosure in the notes to the financial statements.

On March 2, 2016, a bill was passed by the Mississippi State House of Representatives that would consolidate Okolona School Municipal Separate District, Houston Municipal School District, and Chickasaw County School District into one singular district to be designated Chickasaw County Consolidated School District, effective July 1, 2020. As of March 10, 2016, that bill was still in deliberation in the Mississippi State Senate.

REQUIRED SUPPLEMENTARY INFORMATION

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,310,249	\$ 1,303,454	\$ 1,313,764	\$ (6,795)	\$ 10,310
State sources	3,489,230	3,499,904	3,499,904	10,674	-
Federal sources	46,314	62,551	62,551	16,237	-
Total Revenues	4,845,793	4,865,909	4,876,219	20,116	10,310
Expenditures:					
Instruction	2,579,956	2,439,506	2,439,506	140,450	-
Support services	2,149,004	1,899,036	1,789,036	249,968	110,000
Debt service:					
Principal	13,914	13,556	123,914	358	(110,358)
Interest	4,022	4,380	4,022	(358)	358
Total Expenditures	4,746,896	4,356,478	4,356,478	390,418	-
Excess (Deficiency) of Revenues over (under) Expenditures	98,897	509,431	519,741	410,534	10,310
Other Financing Sources (Uses):					
Operating transfers in	532,553	1,005,191	16,984	472,638	(988,207)
Operating transfers out	(1,063,319)	(1,519,027)	(526,255)	(455,708)	992,772
Total Other Financing Sources (Uses)	(530,766)	(513,836)	(509,271)	16,930	4,565
Net Change in Fund Balances	(431,869)	(4,405)	10,470	427,464	14,875
Fund Balances:					
July 1, 2014	1,110,691	1,110,691	1,110,691	-	-
June 30, 2015	\$ 678,822	\$ 1,106,286	\$ 1,121,161	\$ 427,464	\$ 14,875

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 Title I Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 783,752	\$ 823,243	\$ 497,175	\$ 39,491	\$ (326,068)
Total Revenues	783,752	823,243	497,175	39,491	(326,068)
Expenditures:					
Instruction	169,948	214,443	165,472	(44,495)	48,971
Support services	340,433	419,502	354,626	(79,069)	64,876
Noninstructional services	32,917	33,512	12,077	(595)	21,435
Total Expenditures	543,298	667,457	532,175	(124,159)	135,282
Excess (Deficiency) of Revenues over (under) Expenditures	240,454	155,786	(35,000)	(84,668)	(190,786)
Other Financing Sources (Uses):					
Operating transfers in	35,000	35,000	35,000	-	-
Operating transfers out	(5,239)	(5,239)	-	-	5,239
Total Other Financing Sources (Uses)	29,761	29,761	35,000	-	5,239
Net Change in Fund Balances	270,215	185,547	-	(84,668)	(185,547)
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ 270,215	\$ 185,547	\$ -	\$ (84,668)	\$ (185,547)

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 Title SIG 1003a Grant Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 100,053	\$ 319,718	\$ 155,765	\$ 219,665	\$ (163,953)
Total Revenues	100,053	319,718	155,765	219,665	(163,953)
Expenditures:					
Instruction	23,496	209,155	50,984	(185,659)	158,171
Support services	176,949	207,335	104,719	(30,386)	102,616
Total Expenditures	200,445	416,490	155,703	(216,045)	260,787
Excess (Deficiency) of Revenues over (under) Expenditures	(100,392)	(96,772)	62	3,620	96,834
Other Financing Sources (Uses):					
Operating transfers out	(937)	(4,557)	(62)	(3,620)	4,495
Total Other Financing Sources (Uses)	(937)	(4,557)	(62)	(3,620)	4,495
Net Change in Fund Balances	(101,329)	(101,329)	-	-	101,329
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ (101,329)	\$ (101,329)	\$ -	\$ -	\$ 101,329

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 Title II Improving Teacher Quality Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 145,916	\$ 145,916	\$ 115,333	\$ -	\$ (30,583)
Total Revenues	145,916	145,916	115,333	-	(30,583)
Expenditures:					
Instruction	29,591	26,999	26,999	2,592	-
Support services	67,585	76,273	52,081	(8,688)	24,192
Total Expenditures	97,176	103,272	79,080	(6,096)	24,192
Excess (Deficiency) of Revenues over (under) Expenditures	48,740	42,644	36,253	(6,096)	(6,391)
Other Financing Sources (Uses):					
Operating transfers out	(37,958)	(38,869)	(36,253)	(911)	2,616
Total Other Financing Sources (Uses)	(37,958)	(38,869)	(36,253)	(911)	2,616
Net Change in Fund Balances	10,782	3,775	-	(7,007)	(3,775)
Fund Balances:					
July 1, 2014	1,607	1,607	1,607	-	-
June 30, 2015	\$ 12,389	\$ 5,382	\$ 1,607	\$ (7,007)	\$ (3,775)

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 Vocational Basic Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
State sources	\$ 200,838	\$ 201,338	\$ 230,321	\$ 500	\$ 28,983
Federal sources	11,809	11,809	16,122	-	4,313
Total Revenues	212,647	213,147	246,443	500	33,296
Expenditures:					
Instruction	609,321	633,050	633,627	(23,729)	(577)
Support services	136,765	136,324	132,590	441	3,734
Total Expenditures	746,086	769,374	766,217	(23,288)	3,157
Excess (Deficiency) of Revenues over (under) Expenditures	(533,439)	(556,227)	(519,774)	(22,788)	36,453
Other Financing Sources (Uses):					
Operating transfers in	533,439	533,439	498,702	-	(34,737)
Total Other Financing Sources (Uses)	533,439	533,439	498,702	-	(34,737)
Net Change in Fund Balances	-	(22,788)	(21,072)	(22,788)	1,716
Fund Balances:					
July 1, 2014	23,645	23,645	23,645	-	-
June 30, 2015	\$ 23,645	\$ 857	\$ 2,573	(22,788)	\$ 1,716

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 Title IV-B 21st Century Learning Fund
 For The Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 82,890	\$ 350,268	\$ 197,582	\$ 267,378	\$ (152,686)
Total Revenues	82,890	350,268	197,582	267,378	(152,686)
Expenditures:					
Instruction	30,998	197,109	144,326	(166,111)	52,783
Support services	14,324	108,781	48,629	(94,457)	60,152
Total Expenditures	45,322	305,890	192,955	(260,568)	112,935
Excess (Deficiency) of Revenues over (under) Expenditures	37,568	44,378	4,627	6,810	(39,751)
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(1,389)	(8,199)	(4,627)	(6,810)	3,572
Total Other Financing Sources (Uses)	(1,389)	(8,199)	(4,627)	(6,810)	3,572
Net Change in Fund Balances	36,179	36,179	-	-	(36,179)
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ 36,179	\$ 36,179	\$ -	\$ -	\$ (36,179)

The accompanying notes to required supplementary information are an integral part of this schedule.

Okolona Municipal Separate School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share of the Net Pension Liability
 PERS
 Last 10 Fiscal Years *

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0523%
District's proportionate share of the net pension liability (asset)	\$ 6,348,263
District's covered-employee payroll	\$ 3,199,422
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	198.42%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

The accompanying notes to required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

Okolona Municipal Separate School District
 Required Supplementary Information
 Schedule of District Contributions
 PERS
 Last 10 Fiscal Years

	<u>2015</u>
Contractually required obligation	\$ 540,762
Contribution in relation to the contractually required contribution	540,762
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	3,433,410
Contributions as a percentage of its covered-employee payroll	15.75%

The accompanying notes to required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

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.

SUPPLEMENTARY INFORMATION

**Okolona Municipal Separate School District
Supplementary Information
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2015**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 121,550
National school lunch program	10.555	288,885
Summer food service program for children	10.559	8,038
Total child nutrition cluster		<u>418,473</u>
Total passed-through Mississippi Department of Education		<u>418,473</u>
Total U.S. Department of Agriculture		<u>418,473</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
Schools and libraries program of the Universal Service Fund	32.001	18,818
Total Federal Communications Commission		<u>18,818</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	652,940
Career and technical education - basic grants to states	84.048	16,122
Twenty-first century community learning centers	84.287	197,582
Rural education	84.358	8,643
Improving teacher quality - state grants	84.367	115,333
Subtotal		<u>990,620</u>
Special education cluster:		
Special education - grants to states	84.027	141,680
Special education - preschool grants	84.173	5,465
Total special education cluster		<u>147,145</u>
Total passed-through Mississippi Department of Education		<u>1,137,765</u>
Total U.S. Department of Education		<u>1,137,765</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medicaid School Base Admin	99.MIS	26,374
Total U.S. Department of Health and Human Services		<u>26,374</u>
Total for All Federal Awards		<u><u>\$ 1,601,430</u></u>

NOTES TO SCHEDULE

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

Okolona Municipal Separate School District
 Supplementary Information
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For The Year Ended June 30, 2015

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 4,770,511	3,090,776	976,096	332,251	371,388
Other	2,376,478	442,021	606,872	1,850	1,325,735
Total	<u>\$ 7,146,989</u>	<u>3,532,797</u>	<u>1,582,968</u>	<u>334,101</u>	<u>1,697,123</u>
Total number of students *	683				
Cost per student	<u>\$ 10,464</u>	<u>5,172</u>	<u>2,318</u>	<u>489</u>	<u>2,485</u>

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

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

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

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

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

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

OTHER INFORMATION

Okolona Municipal Separate School District
 Other Information
 Statement of Revenues, Expenditures and Changes in Fund Balances
 General Fund
 Last Four Years
 UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 1,313,764	\$ 1,227,854	\$ 1,240,027	\$ 1,211,019
State sources	3,499,904	3,536,459	3,362,343	3,470,213
Federal sources	62,551	50,665	55,526	88,633
Total Revenues	<u>4,876,219</u>	<u>4,814,978</u>	<u>4,657,896</u>	<u>4,769,865</u>
Expenditures:				
Instruction	2,439,506	2,340,338	2,510,348	2,636,850
Support services	1,789,036	1,753,591	1,641,179	2,029,758
Noninstructional services	0	1,541	0	0
Facilities acquisition and construction	0	57,443	49,341	0
Debt service:				
Principal	123,914	13,189	12,502	131,373
Interest	4,022	4,747	5,434	3,917
Other	0	0	0	0
Total Expenditures	<u>4,356,478</u>	<u>4,170,849</u>	<u>4,218,804</u>	<u>4,801,898</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>519,741</u>	<u>644,129</u>	<u>439,092</u>	<u>(32,033)</u>
Other Financing Sources (Uses):				
Capital leases issued	0	0	0	117,354
Sale of other property	0	0	0	4,560
Operating transfers in	16,984	14,267	105,701	55,995
Operating transfers out	(526,255)	(470,514)	(187,621)	(128,235)
Total Other Financing Sources (Uses)	<u>(509,271)</u>	<u>(456,247)</u>	<u>(81,920)</u>	<u>49,674</u>
Net Change in Fund Balances	<u>10,470</u>	<u>187,882</u>	<u>357,172</u>	<u>17,641</u>
Fund Balances:				
Beginning of period, as previously reported	1,110,691	951,566	283,718	189,831
Prior period adjustments	0	(28,757)	310,676	76,246
Beginning of period, as restated	<u>1,110,691</u>	<u>922,809</u>	<u>594,394</u>	<u>266,077</u>
End of Period	<u>\$ 1,121,161</u>	<u>\$ 1,110,691</u>	<u>\$ 951,566</u>	<u>\$ 283,718</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

Okolona Municipal Separate School District
 Other Information
 Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Funds
 Last Four Years
 UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 1,545,102	\$ 1,379,260	\$ 1,377,402	\$ 1,391,294
State sources	3,932,633	3,944,199	3,777,648	3,896,756
Federal sources	1,650,306	1,774,122	2,641,672	2,464,677
Total Revenues	<u>7,128,041</u>	<u>7,097,581</u>	<u>7,796,722</u>	<u>7,752,727</u>
Expenditures:				
Instruction	3,532,800	3,383,031	3,848,665	3,863,458
Support services	2,746,015	2,593,160	2,791,140	3,018,906
Noninstructional services	413,225	514,016	456,911	527,633
Facilities acquisition and construction	97,283	57,443	49,341	0
Debt service:				
Principal	324,504	200,419	240,644	351,377
Interest	30,612	38,467	49,624	54,397
Other	2,550	3,200	2,300	1,000
Total Expenditures	<u>7,146,989</u>	<u>6,789,736</u>	<u>7,438,625</u>	<u>7,816,771</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(18,948)</u>	<u>307,845</u>	<u>358,097</u>	<u>(64,044)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	2,000,000	0	0	0
Capital leases issued	0	0	0	117,354
Premiums on bonds and refunding bonds	6,110	0	0	0
Payment held by QZAB escrow agent	33,926	44,949	42,399	0
Payment to QZAB bond escrow agent	(33,926)	(44,949)	(42,399)	0
Sale of other property	0	0	0	4,560
Operating transfers in	675,395	721,246	516,141	184,230
Operating transfers out	(675,395)	(721,246)	(516,141)	(184,230)
Total Other Financing Sources (Uses)	<u>2,006,110</u>	<u>0</u>	<u>0</u>	<u>121,914</u>
Net Change in Fund Balances	<u>1,987,162</u>	<u>307,845</u>	<u>358,097</u>	<u>57,870</u>
Fund Balances:				
Beginning of period, as previously reported	1,766,546	1,487,225	825,311	713,022
Prior period adjustments	0	(28,757)	310,676	53,116
Beginning of period, as restated	<u>1,766,546</u>	<u>1,458,468</u>	<u>1,135,987</u>	<u>766,138</u>
Increase (Decrease) in reserve for inventory	<u>1,262</u>	<u>233</u>	<u>(6,859)</u>	<u>1,303</u>
End of Period	<u>\$ 3,754,970</u>	<u>\$ 1,766,546</u>	<u>\$ 1,487,225</u>	<u>\$ 825,311</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Superintendent and School Board
Okolona Municipal Separate School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Okolona Municipal Separate School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Okolona Municipal Separate School District's basic financial statements, and have issued our report thereon dated March 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2015-01 to be a material weakness.

Compliance and Other Matters

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

Okolona Municipal Separate School District's Response to Findings

The Okolona Municipal Separate School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Okolona Municipal Separate School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Okolona, Mississippi
March 10, 2016

Watkins Ward and Stafford, P.C.



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
 AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Superintendent and School Board
 Okolona Municipal Separate School District

Report on Compliance for Each Major Federal Program

We have audited the Okolona Municipal Separate School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Okolona Municipal Separate School District's major federal programs for the year ended June 30, 2015. The Okolona Municipal Separate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Okolona Municipal Separate School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the school district's compliance.

Opinion on Each Major Federal Program

In our opinion, the Okolona Municipal Separate School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Okolona Municipal Separate School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Okolona Municipal Separate School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal

over compliance in accordance with OMB Circular A-133, 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 Okolona Municipal Separate School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Okolona, Mississippi
March 10, 2016

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Okolona Municipal Separate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Okolona Municipal Separate School District as of and for the year ended June 30, 2015, which collectively comprise Okolona Municipal Separate School District's basic financial statements and have issued our report thereon dated March 10, 2016. 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 ensure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$0 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 ensure 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

Condition

The district is required to have each board member bonded throughout the entire fiscal year for \$50,000, per Section 37-6-15, Miss. Code of 1972, as amended. One board member was not properly bonded during the fiscal year. The district is required to maintain a public officer individual surety bond for the district's superintendent in the amount of \$100,000, per Section 37-9-27, Miss. Code of 1972, as amended. While the superintendent was covered for \$100,000, he was included on a blanket bond with

multiple other district employees and did not have an individual surety bond. The district is required to maintain a public employee individual surety bond for the district's purchasing agent in the amount of \$50,000, per Section 37-39-21, Miss. Code of 1972, as amended. While the purchasing agent was covered for \$50,000, he was included on a blanket bond with multiple other district employees and did not have an individual surety bond.

Recommendation

The district should ensure all required personnel are bonded in accordance with state law. The district should have individual surety bonds for all board members, the superintendent, and the purchasing agent of the district. All other district employees that are required to be bonded may be included on a blanket bond at the discretion of the district.

Response

The district will ensure all board members, the superintendent, and the purchasing agent of the district are properly bonded and all have individual surety bonds in the next fiscal year.

Finding 2

Condition

Under the reemployment provisions of Section 25-11-127, Miss. Code of 1972, as amended, PERS Form 4B must be filed in the PERS office within five (5) days from the date of reemployment. During the testing of retired personnel, it was noted that one re-hired employee's form was not filed within five (5) days from the date of reemployment, and two re-hired employees were paid an amount in excess of the maximum allowable amount disclosed to PERS.

Recommendation

PERS Form 4B must be completed by the PERS service retiree and the appointing authority of the PERS covered agency employing such service retiree with the PERS office within five (5) days from the date of reemployment and within five (5) days from the termination of such reemployment and employees must not be paid in excess of the maximum amount allowed.

Response

The Business Manager stated that in the future care will be taken to ensure that PERS Form 4B is filed with the PERS office within five (5) days of reemployment of a PERS service retiree and safeguards will be put in place to assure that no one is paid in excess of the amount allowed.

Finding 3

Condition

If the district receives more in actual ad valorem collections than the maximum allowable amount calculated by state law, then the excess revenues over the limitation are required to be deposited in a special account and credited to the fund for which the levy was made. The district cannot, under any circumstances, expend excess funding during the fiscal year in which such excess funds are collected, per Section 37-57-107(3), Miss. Code of 1972, as amended. The district received collections of \$9,701 in excess of its allowable amount, but that amount was not credited to a special escrow amount at 6/30/15, and therefore the excess collections were used to fund the 2015 fiscal year transactions, in violation of the applicable code section.

Recommendation

Any excess ad valorem collections above the increase limitation should be credited to a special escrow account and not expended for current fiscal year transactions, in accordance with the applicable state code section.

Response

In future years, the district will place any excess revenues above the allowable increase limitation in an escrow account to ensure the revenues are not used to fund current fiscal year transactions.

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

The Okolona Municipal Separate School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor 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.

Okolona, Mississippi
March 10, 2016

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|-------------------------------------------------------|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness (es) identified? | Yes |
| | b. Significant deficiency (ies) identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness (es) identified? | No |
| | b. Significant deficiency (ies) identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance With Section 510(a) of OMB Circular A-133? | No |
| 7. | Identification of major programs: | |
| | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| | 10.553, 10.555, 10.559 | Child Nutrition Cluster |
| | 84.010 | Title I, Part A – Grants to local educational agencies |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II: Financial Statement Findings

Material Weakness

2015-01

Condition

During the assessment of the district's internal controls, it was noted that the business manager has ability to receipt cash, to prepare deposit slips, to enter cash transactions into the general ledger, and reconciles the bank balance to the general ledger as well.

Criteria

The district should maintain an adequate segregation of duties in the processing of cash collections, ensuring one person does not have the ability to perform all the functions noted above.

Cause of condition

The internal control structure has not been effectively designed to reduce the risk of one person being able to circumvent the districts controls over cash collections.

Effect of condition

A person who has the ability to perform all the functions noted above could misappropriate the district's assets, particularly cash, without detection due to the ability to both receipt cash and reconcile all cash balances without another party reviewing the procedures. Any theft or misappropriation of assets would be unlikely to be detected due to the lack of a review of these functions by another party.

Recommendation

The district should alleviate functions allowed by the business manager, to establish an adequate segregation of duties and proper internal control structure in the processing of cash collections.

Auditee Response

The district will take steps to eliminate the segregation of duties deficiency.

Section III: Federal Award Findings and Questioned Costs

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS

As required by Section __.315(c) of OMB Circular A-133 the Okolona Municipal Separate School District has prepared and hereby submits the following summary of prior year audit findings as of June 30, 2015:

Finding 2014-06

Programs: Title I, Part A (CFDA# 84.010); School Improvement Grant (CFDA# 84.377)

Condition

School districts are required to maintain a purchasing system that includes: a) purchase requisitions, b) purchase orders, and c) receiving reports. During dual-purpose testing, multiple items failed to meet the criteria for purchasing documentation established by the state manual because no receiving reports, nor required signatures or date of receipt, and/or date sequence was out of order

Corrective Action

This deficiency in internal control over compliance was corrected in the June 30, 2015 fiscal year.

Finding 2014-07

Programs: Title I, Part A Cluster (CFDA# 84.010); School Improvement Grant (CFDA# 84.377)

Condition

Entities receiving federal reimbursement funds are required to have actually incurred program costs paid with the entity's funds before reimbursement is requested. During dual-purpose testing, multiple items had no supporting documentation to verify entity funds had been used for those program costs before reimbursement of federal funds was requested.

Corrective Action

This deficiency in internal control over compliance was corrected in the June 30, 2015 fiscal year.

Finding 2014-08

Programs: Title I, Part A Cluster (CFDA# 84.010); School Improvement Grant (CFDA# 84.377)

Condition

Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. During dual-purpose testing, no items examined had verification that the vendor was not suspended or debarred from contracting with federal agencies.

Corrective Action

This deficiency in internal control over compliance was corrected in the June 30, 2015 fiscal year.