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OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2013**

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
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INDEPENDENT AUDITOR'S 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, 2013, 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.

Auditor's 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 of 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 auditor's 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 auditor considers 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, 2013, 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 and budgetary comparison information on pages 5-11 and 38-41 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 August 21, 2014, 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.

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
August 21, 2014

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, 2013

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, 2013. 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 2013 increased \$824,280, including a prior period adjustment of \$310,676, which represents a 65% increase from fiscal year 2012. Total net position for 2012 increased \$198,467, including a prior period adjustment of \$53,116, which represents an 18% increase from fiscal year 2011.
- General revenues amounted to \$4,862,890 and \$5,002,486, or 62% and 65% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,933,832, or 38% of total revenues for 2013, and \$2,753,718 or 35% of total revenues for 2012.
- The District had \$7,283,118 and \$7,610,853 in expenses for fiscal years 2013 and 2012; only \$2,933,832 for 2013 and \$2,753,718 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$4,862,890 for 2013 and \$5,002,486 for 2012 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$4,657,896 in revenues and \$4,218,804 in expenditures for 2013, and \$4,769,865 in revenues and \$4,801,898 in expenditures in 2012. The General Fund's fund balance increased \$667,848, including a prior period adjustment of \$310,676, from 2012 to 2013, and increased by \$93,887, including a prior period adjustment of \$76,246, from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$88,552 for 2013 and decreased \$162,956 for 2012. The decrease in net capital assets for 2013 was due primarily to increase in accumulated depreciation.
- Long-term debt decreased by \$240,644 for 2013 and decreased by \$234,023 for 2012. This decrease was due primarily to the retirement of shortfall notes payable and other long-term debt. The liability for compensated absences decreased by \$5,886 for 2013 and decreased by \$11,556 for 2012.

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

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.

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

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, 2013

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 as required by the Governmental Accounting Standards Board.

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. Assets exceeded liabilities by \$2,101,155 as of June 30, 2013.

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, 2013 and 2012.

Table 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	\$ 1,367,401	\$ 1,143,829	19.55 %
Restricted assets	225,598	234,854	(3.94) %
Capital assets, net	2,703,183	2,791,735	(3.17) %
Total assets	4,296,182	4,170,418	3.02 %
Current liabilities	117,133	569,119	(79.42) %
Long-term debt outstanding	2,077,894	2,324,424	(10.61) %
Total liabilities	2,195,027	2,893,543	(24.14) %

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Net position:

Net investment in capital assets	1,854,535	1,789,674	3.62 %
Restricted	524,300	556,626	(5.81) %
Unrestricted	(277,680)	(1,069,425)	(74.03) %
Total net position	<u>\$ 2,101,155</u>	<u>\$ 1,276,875</u>	64.55 %

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

- Decrease in current liabilities and long-term debt outstanding of \$698,516, due primarily to retirement of the waiver of \$310,676 of claims payable noted as a prior period adjustment and retirement of outstanding long-term debt.
- Increase in current assets of \$223,572 due primarily to the current year increase in net position that is included in cash and cash equivalent balances.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$7,796,722 and \$7,756,204, respectively. The total cost of all programs and services was \$7,283,118 for 2013 and \$7,610,853 for 2012. Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 86,731	\$ 98,770	(12.19) %
Operating grants and contributions	2,847,101	2,654,948	7.24 %
General revenues:			
Property taxes	1,199,777	1,225,731	(2.12) %
Grants and contributions not restricted	3,572,218	3,706,486	(3.62) %
Investment earnings	19,068	24,243	(21.35) %
Other	71,827	46,026	56.06 %
Total revenues	<u>7,796,722</u>	<u>7,756,204</u>	0.52 %
Expenses:			
Instruction	3,954,358	3,970,949	(0.42) %
Support services	2,811,393	3,043,316	(7.62) %
Non-instructional	469,831	544,746	(13.75) %
Interest on long-term liabilities	47,536	51,842	(8.31) %
Total expenses	<u>7,283,118</u>	<u>7,610,853</u>	(4.31) %
Increase (Decrease) in net position	<u>513,604</u>	<u>145,351</u>	253.35 %
Net Position, July 1, as previously stated	<u>1,276,875</u>	<u>1,078,408</u>	18.40 %
Prior Period Adjustment	<u>310,676</u>	<u>53,116</u>	
Net Position, July 1, as restated	<u>1,587,551</u>	<u>1,131,524</u>	
Net Position, June 30	<u>\$ 2,101,155</u>	<u>\$ 1,276,875</u>	64.55 %

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Governmental activities

The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, and interest on long-term debt. The table also shows each 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.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2013	2012	
Instruction	\$ 3,954,358	\$ 3,970,949	(0.42) %
Support services	2,811,393	3,043,316	(7.62) %
Non-instructional	469,831	544,746	(13.75) %
Interest on long-term liabilities	47,536	51,842	(8.31) %
Total expenses	\$ 7,283,118	\$ 7,610,853	(4.31) %

	Net (Expense) Revenue		Percentage Change
	2013	2012	
Instruction	\$ (2,613,623)	\$ (2,396,820)	9.05 %
Support services	(1,692,560)	(2,374,765)	(28.73) %
Non-instructional	4,433	(33,708)	(113.15) %
Interest on long-term liabilities	(47,536)	(51,842)	(8.31) %
Total net (expense) revenue	\$ (4,349,286)	\$ (4,857,135)	(10.46) %

- Net cost of governmental activities (\$4,349,286 for 2013 and \$4,857,135 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$1,199,177 for 2013 and \$1,225,731 for 2012) and state and federal revenues (\$3,572,218 for 2013 and \$3,706,486 for 2012).
- Investment earnings amounted to \$19,068 for 2013 and \$24,243 for 2012.

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 \$1,487,225, an increase of \$661,914, which includes a decrease in inventory of \$6,859 and a prior period adjustment of \$310,676. \$861,386 or 58% 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 \$625,839 or 42% is either

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

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 \$667,848. The fund balance of Other Governmental Funds showed a decrease in the amount of \$5,934, which includes a decrease in reserve for inventory of \$6,859 due primarily to a decrease in the summer food program. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
School Improvement Grant Fund	no increase or decrease
Title IV-B 21st Century Learning Fund	no increase or decrease

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, 2013, the District's total capital assets were \$5,750,658, including land, school buildings, building and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$68,324 from 2012. Total accumulated depreciation as of June 30, 2013, was \$3,047,475, and total depreciation expense for the year was \$162,018, resulting in total net capital assets of \$2,703,183.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 77,760	\$ 77,760	0.00 %
Buildings	2,430,932	2,480,716	(2.01) %
Building improvements	47,367	-	N/A %
Mobile equipment	115,346	144,392	(20.12) %
Furniture and equipment	31,778	88,867	(64.24) %
Total	\$ 2,703,183	\$ 2,791,735	(3.17) %

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

Debt Administration. At June 30, 2013, the District had \$2,077,894 in outstanding long-term debt, of which \$210,296 is due within one year. The liability for compensated absences decreased \$5,886 from the prior year.

The District maintains a AA bond rating.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 5
Outstanding Long-Term Debt

	June 30, 2013	June 30, 2012	Percentage Change
Limited obligation bonds payable	\$ 705,000	\$ 830,000	(15.06) %
Shortfall notes payable	-	55,381	(100.00) %
Obligations under capital leases	143,648	172,061	(16.51) %
Qualified zone academy bonds payable	500,000	500,000	0.00 %
Other loans payable	705,500	737,350	(4.32) %
Compensated absences payable	23,746	29,632	(19.86) %
Total	\$ 2,077,894	\$ 2,324,424	(10.61) %

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.

The personnel of Okolona Municipal Separate School District remain committed to clearing the impairments facing 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, 2013

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 958,398
Cash with fiscal agents	21,000
Due from other governments	375,368
Other receivables, net	6,544
Inventories	6,091
Restricted assets	225,598
Capital assets, non-depreciable:	
Land	77,760
Capital assets, net of accumulated depreciation:	
Buildings	2,430,932
Building improvements	47,367
Mobile equipment	115,346
Furniture and equipment	31,778
Total Assets	<u>4,296,182</u>
Liabilities	
Accounts payable and accrued liabilities	103,924
Unearned revenue	1,850
Interest payable on long-term liabilities	11,359
Long-term liabilities, due within one year:	
Capital related liabilities	164,919
Non-capital related liabilities	45,377
Long-term liabilities, due beyond one year:	
Capital related liabilities	683,729
Non-capital related liabilities	1,183,869
Total Liabilities	<u>2,195,027</u>
Net Position	
Net investment in capital assets	1,854,535
Restricted for:	
Expendable:	
School-based activities	171,632
Debt service	302,803
Unemployment benefits	24,148
Non-expendable:	
Permanent fund principal	25,717
Unrestricted	(277,680)
Total Net Position	<u>\$ 2,101,155</u>

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

Okolona Municipal Separate School District
Statement of Activities
For The Fiscal Year Ended June 30, 2013

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 3,954,358	71,916	1,268,819	-	\$	(2,613,623)
Support services	2,816,535	-	1,118,833	-		(1,697,702)
Non-instructional	464,689	14,815	459,449	-		9,575
Interest on long-term liabilities	47,536	-	-	-		(47,536)
Total Governmental Activities	\$ 7,283,118	86,731	2,847,101	-	\$	(4,349,286)

General Revenues:

Taxes:

General purpose levies	1,087,261
Debt purpose levies	112,516

Unrestricted grants and contributions:

State	3,516,692
Federal	55,526
Unrestricted investment earnings	19,068
Other	71,827

Total General Revenues 4,862,890

Change in Net Position 513,604

Net Position - Beginning, as previously reported 1,276,875

Prior Period Adjustments 310,676

Net Position - Beginning, as restated 1,587,551

Net Position - Ending \$ 2,101,155

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

Okolona Municipal Separate School District
 Governmental Funds
 Balance Sheet
 June 30, 2013

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	School Improvement Grant Fund	Title IV-B 21st Century Learning Fund	Other Governmental Funds	
Assets					
Cash and cash equivalents	\$ 788,094	\$ -	\$ -	\$ 171,021	\$ 959,115
Cash with fiscal agents	9,000	-	-	12,084	21,084
Investments	-	-	-	224,797	224,797
Due from other governments	76,657	86,843	43,059	168,809	375,368
Due from other funds	124,994	-	-	19,184	144,178
Inventories	-	-	-	6,091	6,091
Total assets	\$ 998,745	\$ 86,843	\$ 43,059	\$ 601,986	\$ 1,730,633
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 36,177	51,735	1,301	8,867	\$ 98,080
Due to other funds	9,000	35,108	41,758	51,768	137,634
Unearned revenue	-	-	-	1,850	1,850
Other payables	2,002	-	-	3,842	5,844
Total Liabilities	47,179	86,843	43,059	66,327	243,408
Fund Balances:					
Nonspendable:					
Inventory	-	-	-	6,091	6,091
Permanent fund principal	-	-	-	25,717	25,717
Restricted:					
Debt service	-	-	-	314,162	314,162
Grant activities	-	-	-	165,541	165,541
Unemployment benefits	-	-	-	24,148	24,148
Assigned:					
Activity funds	90,180	-	-	-	90,180
Unassigned					
	861,386	-	-	-	861,386
Total Fund Balances	951,566	-	-	535,659	1,487,225
Total Liabilities and Fund Balances	\$ 998,745	\$ 86,843	\$ 43,059	\$ 601,986	\$ 1,730,633

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

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, 2013

Total fund balances for governmental funds \$ 1,487,225

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	
Buildings	4,562,108	
Building improvements	49,341	
Mobile equipment	627,949	
Furniture and equipment	433,500	
Accumulated depreciation	<u>(3,047,475)</u>	2,703,183

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

Limited obligation bonds	\$ (705,000)	
Capital lease obligations	(143,648)	
QZAB Bonds Payable	(500,000)	
Other notes payable	(705,500)	
Compensated absences	(23,746)	
Accrued interest payable	<u>(11,359)</u>	(2,089,253)

Net position of governmental activities \$ 2,101,155

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

Okolona Municipal Separate School District
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For The Year Ended June 30, 2013

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	School Improvement Grant Fund	Title IV-B 21st Century Learning Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 1,240,027	\$ 124	\$ -	\$ 137,251	\$ 1,377,402
State sources	3,362,343	-	-	415,305	3,777,648
Federal sources	55,526	1,000,856	242,860	1,342,430	2,641,672
Total Revenues	4,657,896	1,000,980	242,860	1,894,986	7,796,722
Expenditures:					
Instruction	2,510,348	386,106	187,590	764,621	3,848,665
Support services	1,641,179	576,979	43,563	529,419	2,791,140
Noninstructional services	-	12,084	-	444,827	456,911
Facilities acquisition and construction	49,341	-	-	-	49,341
Debt service:					
Principal	12,502	-	-	228,142	240,644
Interest	5,434	-	-	44,190	49,624
Other	-	-	-	2,300	2,300
Total Expenditures	4,218,804	975,169	231,153	2,013,499	7,438,625
Excess (Deficiency) of Revenues over (under) Expenditures	439,092	25,811	11,707	(118,513)	358,097
Other Financing Sources (Uses):					
Payment held by QZAB escrow agent	-	-	-	42,399	42,399
Payment to QZAB bond escrow agent	-	-	-	(42,399)	(42,399)
Operating transfers in	105,701	-	-	410,440	516,141
Operating transfers out	(187,621)	(25,811)	(11,707)	(291,002)	(516,141)
Total Other Financing Sources (Uses)	(81,920)	(25,811)	(11,707)	119,438	-
Net Change in Fund Balances	357,172	-	-	925	358,097
Fund Balances:					
July 1, 2012, as previously reported	283,718	-	-	541,593	825,311
Prior period adjustments	310,676	-	-	-	310,676
July 1, 2012, as restated	594,394	-	-	541,593	1,135,987
Increase (Decrease) in reserve for inventory				(6,859)	(6,859)
June 30, 2013	\$ 951,566	\$ -	\$ -	\$ 535,659	\$ 1,487,225

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

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, 2013

Exhibit D-1

Net change in fund balances - total governmental funds \$ 358,097

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	\$ 78,991	
Depreciation expense	(162,018)	(83,027)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. (5,525)

3. 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:

Payments of debt principal	240,644	
Accrued interest payable	4,388	245,032

4. 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	5,886	
Change in inventory reserve	(6,859)	(973)

Change in net position of governmental activities \$ 513,604

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

Okolona Municipal Separate School District
 Fiduciary Funds
 Statement of Fiduciary Net Position
 June 30, 2013

Exhibit E

	Agency Funds
	<u> </u>
Assets	
Cash and cash equivalents	\$ 185,272
Total Assets	\$ <u>185,272</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 175,186
Due to other funds	6,544
Due to student clubs	3,542
Total Liabilities	\$ <u>185,272</u>

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

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. For the most part, 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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

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.

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.

School Improvement Grant Fund – This is a special revenue fund that accounts for the revenues and expenditures of the School Improvement Grants administered by the U.S. Department of Education.

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.

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.

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

FIDUCIARY FUNDS

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

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.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, unspent proceeds from the issuance of long-term debt are also classified as restricted assets.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

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

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

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is no committed fund balance for this school district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and the Business Manager pursuant to authorization established by the District's approved fund balance policy.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

Unassigned fund balance is the residual classification for the general fund. This classification represents 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 general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

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 \$959,115 and \$185,272, 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, 2013, none of the district's bank balance of \$1,391,261 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 \$21,084.

Investments

As of June 30, 2013, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Hancock Horizon Treasury Securities			
Money Market Mutual Funds	AAAm	Less than 1	\$ 5,002
U.S. Government Securities	AA	More than 5	194,795
Certificate of deposit	N/A	Less than 1	25,000
			\$ 224,797

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.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

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	School Improvement Grant	\$ 35,108
General Fund	Title IV-B 21st Century	41,758
General Fund	Other governmental funds	41,584
General Fund	Fiduciary Funds	6,544
Other governmental funds	General Fund	9,000
Other governmental funds	Other governmental funds	10,184
		<u>\$ 144,178</u>

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	Other governmental funds	\$ 187,621
School Improvement Grant	General Fund	25,811
Title IV-B 21st Century	General Fund	11,707
Other governmental funds	General Fund	68,183
Other governmental funds	Other governmental funds	222,819
		<u>\$ 516,141</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance and investment balance, totaling \$717 and \$25,000, respectively of the E.E. Davis Trust Fund (Permanent Fund) which is restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agent balance and investment balance, totaling \$84 and \$194,795, respectively, of the QZAB Bond Retirement Funds.

In addition, the restricted assets represent the investment balance, totaling \$5,002, of the MAEP Bond Issue Fund.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 5 – Capital Assets

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

Governmental Activities:	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
<u>Non-depreciable capital assets:</u>				
Land	\$ 77,760	\$	\$	\$ 77,760
Total non-depreciable capital assets	77,760	-	-	77,760
<u>Depreciable capital assets:</u>				
Buildings	4,562,108			4,562,108
Building improvements		49,341		49,341
Mobile equipment	627,949			627,949
Furniture and equipment	414,517	29,650	10,667	433,500
Total depreciable capital assets	5,604,574	78,991	10,667	5,672,898
<u>Less accumulated depreciation for:</u>				
Buildings	2,081,392	49,784		2,131,176
Building improvements		1,974		1,974
Mobile equipment	483,557	29,046		512,603
Furniture and equipment	325,650	81,214	5,142	401,722
Total accumulated depreciation	2,890,599	162,018	5,142	3,047,475
Total depreciable capital assets, net	2,713,975	(83,027)	5,525	2,625,423
Governmental activities capital assets, net	\$ 2,791,735	\$ (83,027)	\$ 5,525	\$ 2,703,183

Depreciation expense was charged to the following governmental functions:

Governmental activities:	Amount
Instruction	\$ 109,813
Support services	36,517
Non-instructional services	15,688
Total depreciation expense-governmental activities	\$ 162,018

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 6 – Long-term Liabilities

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

Description	Balance			Amounts due	
	7/1/2012	Additions	Reductions	6/30/2013	within one year
A. Limited obligations bonds payable	\$ 830,000	\$ -	\$ 125,000	\$ 705,000	\$ 135,000
B. Shortfall notes payable	55,381	-	55,381	-	-
C. Obligations under capital leases	172,061	-	28,413	143,648	29,919
D. Qualified zone academy bonds	500,000	-	-	500,000	-
E. Other loans payable	737,350	-	31,850	705,500	35,500
F. Compensated absences payable	29,632	-	5,886	23,746	9,877
Total	<u>\$ 2,324,424</u>	<u>\$ -</u>	<u>\$ 246,530</u>	<u>\$ 2,077,894</u>	<u>\$ 210,296</u>

A. 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	\$ 705,000
Total				<u>\$ 1,310,000</u>	<u>\$ 705,000</u>

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

Year Ending	Principal	Interest	Total
June 30			
2014	\$ 135,000	\$ 24,800	\$ 159,800
2015	135,000	20,750	155,750
2016	140,000	16,700	156,700
2017	145,000	11,800	156,800
2018	150,000	6,000	156,000
Total	<u>\$ 705,000</u>	<u>\$ 80,050</u>	<u>\$ 785,050</u>

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

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.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall Tax Note, Series 2009	3.60%	6/23/2009	7/19/2012	\$ 160,000	\$ -
Total				\$ 160,000	\$ -

All shortfall notes payable for the district were retired during the current year. There are no outstanding shortfall note debt payments outstanding for the district at June 30, 2013.

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 and School buses for \$99,193 for a total cost of \$249,193, 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	52,815
2. Series 2011A - Buses	5.42%	8/16/2011	4/10/2019	117,354	90,833
Total				\$ 267,354	143,648

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

1. Series 2006A - Equipment

Year Ending	Principal	Interest	Total
June 30			
2014	\$ 16,730	2,473	19,203
2015	17,590	1,613	19,203
2016	18,495	708	19,203
Total	\$ 52,815	4,794	57,609

This debt will be retired from the School Lunchroom Fund.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

2. Series 2011A - Buses

Year Ending June 30	Principal	Interest	Total
2014	\$ 13,189	4,747	17,936
2015	13,914	4,022	17,936
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	\$ 90,833	16,784	107,617

This debt will be retired from the District Maintenance Fund.

Total obligations under capital lease payments for all issues:

Year Ending June 30	Principal	Interest	Total
2014	\$ 29,919	7,220	37,139
2015	31,504	5,635	37,139
2016	33,173	3,966	37,139
2017	15,485	2,452	17,937
2018	16,335	1,601	17,936
2019	17,232	704	17,936
Total	\$ 143,648	21,578	165,226

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				\$ 500,000	500,000

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

E. Other loans payable

Debt currently outstanding is as follows:

Description	Interest	Issue	Maturity	Amount	Amount
	Rate	Date	Date	Issued	Outstanding
1. Limited tax note	3.70%	10/05/2005	10/01/2015	\$ 350,000	155,500
2. Emergency note	N/A	6/25/2010	N/A	550,000	550,000
Total				<u>\$ 900,000</u>	<u>705,500</u>

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

1. Limited tax note

Year Ending	Principal	Interest	Total
June 30			
2014	\$ 35,500	5,097	40,597
2015	48,000	3,552	51,552
2016	72,000	1,332	73,332
Total	<u>\$ 155,500</u>	<u>9,981</u>	<u>165,481</u>

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

2. Emergency Loan

On February 24, 2010, the Governor declared a state of emergency relating to the Okolona Municipal Separate School District. On June 25, 2010, the District borrowed \$550,000 from the School District Emergency Assistance Fund, not to be repaid until 5 years after the District regains solvency.

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. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

30, 2013 was 14.26% 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, 2013, 2012 and 2011 were \$500,425, \$457,251, and \$405,310, respectively, which equaled the required contributions for each year.

Note 8 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows

Exhibit B - Statement of Activities

Explanation	Amount
Cumulative total of prior year conservator fees	
waived by the state	\$ 310,676
	\$ 310,676

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

Fund	Explanation	Amount
General Fund	Cumulative total of prior year	
	conservator fees waived by the state	\$ 310,676
		\$ 310,676

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-

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

insurance pool. The trust consists of approximately 90 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.

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, 2013 was \$194,879. 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		Amount
June 30		
2014	\$	42,800
2015		32,747
2016		9,300
2017		85,400
2018		88,000
2019		25,100
Total	\$	<u>283,347</u>

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 12 – Subsequent Events

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 August 21, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

On July 7, 2014, the board adopted a resolution for the issuance of general obligation bonds for an amount not to exceed \$2,000,000, to be voted on for approval by the citizens of Okolona Municipal Separate School District on August 26, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,329,661	\$ 1,237,474	\$ 1,240,027	\$ (92,187)	\$ 2,553
State sources	3,308,248	3,362,343	3,362,343	54,095	-
Federal sources	90,368	55,526	55,526	(34,842)	-
Total Revenues	4,728,277	4,655,343	4,657,896	(72,934)	2,553
Expenditures:					
Instruction	2,677,506	2,510,348	2,510,348	167,158	-
Support services	2,035,014	1,690,520	1,641,179	344,494	49,341
Facilities acquisition and construction	-	-	49,341	-	(49,341)
Debt service:					
Principal	59,000	15,303	12,502	43,697	2,801
Interest	2,000	2,633	5,434	(633)	(2,801)
Total Expenditures	4,773,520	4,218,804	4,218,804	554,716	-
Excess (Deficiency) of Revenues over (under) Expenditures	(45,243)	436,539	439,092	481,782	2,553
Other Financing Sources (Uses):					
Operating transfers in	600,820	577,880	105,701	(22,940)	(472,179)
Operating transfers out	(648,197)	(724,942)	(187,621)	(76,745)	537,321
Total Other Financing Sources (Uses)	(47,377)	(147,062)	(81,920)	(99,685)	65,142
Net Change in Fund Balances	(92,620)	289,477	357,172	382,097	67,695
Fund Balances:					
July 1, 2012, as previously reported	283,718	283,718	283,718	-	-
Prior period adjustments	-	310,676	310,676	310,676	-
July 1, 2012, as restated	283,718	594,394	594,394	310,676	-
June 30, 2013	\$ 191,098	\$ 883,871	\$ 951,566	\$ 692,773	\$ 67,695

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

Okolona Municipal Separate School District
 Required Supplementary Information
 Budgetary Comparison Schedule
 School Improvement Grant Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	\$ 124	\$ 124	\$ 124	\$ -
Federal sources	1,143,245	1,000,856	1,000,856	(142,389)	-
Total Revenues	1,143,245	1,000,980	1,000,980	(142,265)	-
Expenditures:					
Instruction	507,903	386,106	386,106	(121,797)	-
Support services	532,748	576,979	576,979	44,231	-
Noninstructional services	44,360	12,084	12,084	(32,276)	-
Total Expenditures	1,085,011	975,169	975,169	(109,842)	-
Excess (Deficiency) of Revenues over (under) Expenditures	58,234	25,811	25,811	(32,423)	-
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(58,234)	(25,811)	(25,811)	32,423	-
Total Other Financing Sources (Uses)	(58,234)	(25,811)	(25,811)	32,423	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -

The notes to the 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, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	290,328	242,860	242,860	(47,468)	-
Total Revenues	290,328	242,860	242,860	(47,468)	-
Expenditures:					
Instruction	231,335	187,590	187,590	(43,745)	-
Support services	44,612	43,563	43,563	(1,049)	-
Total Expenditures	275,947	231,153	231,153	(44,794)	-
Excess (Deficiency) of Revenues over (under) Expenditures	14,381	11,707	11,707	(2,674)	-
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(14,381)	(11,707)	(11,707)	2,674	-
Total Other Financing Sources (Uses)	(14,381)	(11,707)	(11,707)	2,674	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2012,	-	-	-	-	-
June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -

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

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2013

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, 2013

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	\$ 124,870
National school lunch program	10.555	274,190
Summer food service program for children	10.559	31,306
Total child nutrition cluster		<u>430,366</u>
Total passed-through Mississippi Department of Education		<u>430,366</u>
Total U.S. Department of Agriculture		<u>430,366</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
Schools and libraries program of the Universal Service Fund	32.001	27,537
Total Federal Communications Commission		<u>27,537</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	14,592
Twenty-first century community learning centers	84.287	242,860
Rural education	84.358	8,647
Improving teacher quality - state grants	84.367	132,709
School improvement grants	84.377	1,000,856
Subtotal		<u>1,399,664</u>
Title I Part A cluster:		
Title I grants to local educational agencies	84.010	558,788
Total Title I Part A cluster		<u>558,788</u>
Special education cluster:		
Special education - grants to states	84.027	146,630
Special education - preschool grants	84.173	6,238
Total special education cluster		<u>152,868</u>
Educational technology state grants cluster:		
Educational technology state grants	84.318	19,126
Total educational technology state grants cluster		<u>19,126</u>
Total passed-through Mississippi Department of Education		<u>2,130,446</u>
Total U.S. Department of Education		<u>2,130,446</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medicaid School Base Admin	99.MIS	10,605
Total U.S. Department of Health and Human Services		<u>10,605</u>
Total for All Federal Awards		<u>\$ 2,598,954</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, 2013

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 4,899,395	3,207,303	910,711	259,529	521,852
Other	2,539,230	641,361	828,155	3,514	1,066,200
Total	<u>\$ 7,438,625</u>	<u>3,848,664</u>	<u>1,738,866</u>	<u>263,043</u>	<u>1,588,052</u>
Total number of students *	669				
Cost per student	<u>\$ 11,119</u>	<u>5,753</u>	<u>2,599</u>	<u>393</u>	<u>2,374</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

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 1,240,027	\$ 1,211,019	\$ 1,087,015	\$ 1,006,462
State sources	3,362,343	3,470,213	3,143,322	3,187,362
Federal sources	55,526	88,633	76,074	47,956
Total Revenues	<u>4,657,896</u>	<u>4,769,865</u>	<u>4,306,411</u>	<u>4,241,780</u>
Expenditures:				
Instruction	2,510,348	2,636,850	2,332,132	2,834,337
Support services	1,641,179	2,029,758	1,938,804	1,888,995
Facilities acquisition and construction	49,341			
Debt service:				
Principal	12,502	131,373	21,859	37,868
Interest	5,434	3,917	8,200	6,491
Total Expenditures	<u>4,218,804</u>	<u>4,801,898</u>	<u>4,300,995</u>	<u>4,767,691</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>439,092</u>	<u>(32,033)</u>	<u>5,416</u>	<u>(525,911)</u>
Other Financing Sources (Uses):				
Bonds and notes issued				550,000
Capital leases issued	-	117,354		127,950
Sale of other property	-	4,560		
Operating transfers in	105,701	55,995	25,793	45,026
Operating transfers out	(187,621)	(128,235)	(79,359)	(110,212)
Total Other Financing Sources (Uses)	<u>(81,920)</u>	<u>49,674</u>	<u>(53,566)</u>	<u>612,764</u>
Net Change in Fund Balances	<u>357,172</u>	<u>17,641</u>	<u>(48,150)</u>	<u>86,853</u>
Fund Balances:				
Beginning of period, as previously reported	283,718	189,831	237,981	151,527
Prior period adjustments	310,676	76,246		
Beginning of period, as restated	<u>594,394</u>	<u>266,077</u>	<u>237,981</u>	<u>151,527</u>
End of Period	<u>\$ 951,566</u>	<u>\$ 283,718</u>	<u>\$ 189,831</u>	<u>\$ 238,380</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

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 1,377,402	\$ 1,391,294	\$ 1,293,762	\$ 1,172,467
State sources	3,777,648	3,896,756	3,553,136	3,591,030
Federal sources	2,641,672	2,464,677	2,782,497	2,262,010
Total Revenues	<u>7,796,722</u>	<u>7,752,727</u>	<u>7,629,395</u>	<u>7,025,507</u>
Expenditures:				
Instruction	3,848,665	3,863,458	4,069,616	4,151,145
Support services	2,791,140	3,018,906	2,724,613	2,706,491
Noninstructional services	456,911	527,633	489,593	383,612
Facilities acquisition and construction	49,341			
Debt service:				
Principal	240,644	351,377	287,247	246,886
Interest	49,624	54,397	65,689	65,083
Other	2,300	1,000	6,611	2,693
Total Expenditures	<u>7,438,625</u>	<u>7,816,771</u>	<u>7,643,369</u>	<u>7,555,910</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>358,097</u>	<u>(64,044)</u>	<u>(13,974)</u>	<u>(530,403)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	-			550,000
Capital leases issued	-	117,354		127,950
Payment held by QZAB escrow agent	42,399			
Payment to QZAB bond escrow agent	(42,399)			
Sale of other property	-	4,560		1,000
Operating transfers in	516,141	184,230	107,078	155,238
Other financing sources	-			34,650
Operating transfers out	(516,141)	(184,230)	(107,078)	(155,238)
Other financing uses	-			(35,300)
Total Other Financing Sources (Uses)	<u>-</u>	<u>121,914</u>	<u>-</u>	<u>678,300</u>
Net Change in Fund Balances	<u>358,097</u>	<u>57,870</u>	<u>(13,974)</u>	<u>147,897</u>
Fund Balances:				
Beginning of period, as previously reported	825,311	713,022	726,276	585,690
Prior period adjustments	310,676	53,116		(5,945)
Beginning of period, as restated	<u>1,135,987</u>	<u>766,138</u>	<u>726,276</u>	<u>579,745</u>
Increase (Decrease) in reserve for inventory	<u>(6,859)</u>	<u>1,303</u>	<u>720</u>	<u>(1,366)</u>
End of Period	<u>\$ 1,487,225</u>	<u>\$ 825,311</u>	<u>\$ 713,022</u>	<u>\$ 726,276</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
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INDEPENDENT AUDITOR'S 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, 2013, and the related notes to the financial statements, which collectively comprise the Okolona Municipal Separate School District's basic financial statements, and have issued our report thereon dated August 21, 2014.

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 deficiencies described in the accompanying schedule of findings and questioned costs as findings 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06, and 2013-07, to be material weaknesses.

Compliance and Other Matters

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

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.

This report is intended solely for the information and use of management, the school board, others within the entity, entities with accreditation overview, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Watkins, Ward, and Stafford, PLLC
Okolona, Mississippi
August 21, 2014

Watkins, Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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 Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT 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, 2013. 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 each of its federal programs.

Auditor's 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-08, 2013-09, and 2013-10. Our opinion on each major federal program is not modified with respect to these matters.

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

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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-08 and 2013-09 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-10, to be a significant deficiency.

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

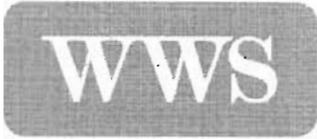
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, the school board, others within the entity, entities with accreditation overview, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
August 21, 2014

Watkins, Ward and Stafford, PLLC

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



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
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INDEPENDENT AUDITOR'S 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, 2013, which collectively comprise Okolona Municipal Separate School District's basic financial statements and have issued our report thereon dated August 21, 2014. 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 \$2,730 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 instance on noncompliance described in Finding 2013-06 in the Schedule of Findings and Questioned Costs and the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1

The district, as a political subdivision of the State of Mississippi, is required to maintain an unemployment compensation revolving fund that is equal to two percent of the covered wages of the district during the fiscal year, per Section 71-5-359, Miss. Code of 1972, as amended. At June 30, 2013 the district's cash and investment balance in the unemployment compensation revolving fund did not meet the required two percent of covered wages minimum balance.

Recommendation

The district should closely monitor the cash and investment balance in the unemployment compensation fund to ensure the minimum balance is in compliance with the applicable state code.

Response

The district will take care to maintain the required minimum cash and investment balance in the district's unemployment compensation revolving fund.

Finding 2

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 the school district did not have a Form 4B on file for four employees, three others were not filed within five (5) days from the date of reemployment, and three were paid an amount in excess of the amount allowed.

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 amount allowed.

Response

The Personnel Director and the Business Manager stated that in the future care will be taken to ensure that PERS Form 4B is filed in 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.

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 finding 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.

Watkins, Ward and Stafford, PLLC
Okolona, Mississippi
August 21, 2014

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, 2013

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? | Yes |
| | b. Significant deficiency (ies) identified? | Yes |
| 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? | Yes |
| 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 |
| | 84.377 | School Improvement Grant |
| 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, 2013

Section II: Financial Statement Findings

Significant deficiencies, considered to be material weaknesses

2013-01

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.

2013-02

Condition

During the assessment of the district's internal controls, it was noted that the business manager has ability to set up new employees, enter pay rates and can make changes to pay rates, process payroll transactions, reconciles the payroll bank account, prepares all payroll reports, and prepares 941 and W-2 forms, in addition to having responsibility for all general ledger functions, without review of another party.

Criteria

The district should maintain an adequate segregation of duties in the processing of payroll, 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 district's controls over payroll.

Effect of Condition

A person who has the ability to perform all the functions noted above could create fictitious employees or change pay rates for any employee with no review or supervision. Any theft or

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

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 allocated to the business manager, to establish an adequate segregation of duties and proper internal control structure in the processing of payroll.

Auditee Response

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

2013-03

Condition

In the testing of end-of-year accruals and transactions, documentation could not be provided for certain journal entries and accruals. In the testing of payroll, two of the four Forms 941 could not be provided for examination for the prior fiscal year. In addition, statements for certain cash with fiscal agent accounts could not be provided.

Criteria

The district should maintain adequate records to provide documentation for all transactions of the district during the fiscal year.

Cause of Condition

There was significant turnover in the district during the fiscal year, and the employee who performed the general ledger entries and payroll transactions no longer works for the district. The current employees could not provide the documentation for the transactions and forms noted above.

Effect of Condition

Certain journal entries and accruals could not be verified based on the supporting documentation provided by the district.

Recommendation

Adequate documentation for journal entries and accruals should be maintained by the district and all forms filed with outside agencies, such as Forms 941, should be maintained indefinitely.

Auditee Response

The district will ensure all transactions have adequate supporting documentation and all records are maintained.

2013-04

Condition

During the testing of payroll expenditures, it was noted that the district is not issuing at-will contracts for hourly employees.

Criteria

The district should issue at-will contracts for non-certified hourly employees noting the rate of hourly or daily pay and the hours or days required to be worked during the fiscal year.

Cause of Condition

The controls for processing new employees and new contracts are not adequately designed to ensure the rate of pay is approved by the superintendent and board prior to the processing of payroll.

Effect of Condition

Hourly employees could be paid more than their prescribed rate of pay or work more hours or days than allowed without board approval.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Recommendation

All hourly employees should sign at-will contracts noting the rate of hourly or daily pay and the hours or days required to be worked during the fiscal year to provide confirmation of their board approved rate of pay.

Auditee Response

The district will issue at-will contracts to all hourly employees.

2013-05

Condition

During the assessment of the district's internal controls, multiple expenditures did not have any evidence of actual receipt of the goods or services by the district, neither a receiving report nor a signature on the invoice acknowledging receipt.

Criteria

The district is required to complete certain purchasing documents to ensure the district has received all goods and supplies for which payment is made.

Cause of Condition

The district's internal controls have not been adequately designed to ensure all goods and services are received by the district before payment is approved by the board.

Effect of Condition

The district could be paying for good or services that have not actually been delivered. Since no review of the receiving documents is done during the payable process, assets of the district could be misappropriated without the district's knowledge.

Recommendation

The district should use all purchasing documents prescribed by the state manual for school districts to establish an effectively designed purchasing system and ensure all good and services are actually received prior to payment.

Auditee Response

The proper purchasing and receiving documents will be completed for all applicable goods and services.

2013-06

Condition

For two applicable purchases, no evidence of a second written competitive bid could be provided upon request, as required by Section 31-7-13(b). One purchase was made from a vendor other than the lowest bidder and no documentation for the purchase was included in the board minutes, as required by Section 31-7-13(d)(i). For one applicable purchase, no evidence of the bid advertisement could be provided upon request, as required by Section 31-7-13(c)(i)(1).

Criteria

Purchasing requirements for the school district have been established by the Miss. Code of 1972, as amended. Per Section 31-7-13(b), for purchases between \$5,001 and \$50,000 two competitive written bids must be obtained by the entity. Per Section 31-7-13(d)(i), if the lowest bid is not accepted then appropriate justification must be documented in the board minutes of the district. Per Section 31-7-13(c)(i)(1), for purchases greater than \$50,000 an advertisement must be made by the district for competitive sealed bids.

Cause of Condition

The district's internal controls have not been adequately designed to ensure all state purchasing laws are followed for applicable purchases by the district.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Effect of Condition

Due to this control deficiency, the district is in non-compliance with state purchasing laws on multiple purchases and the non-compliance was not prevented or detected by the district's internal control system.

Recommendation

The district should closely monitor all purchases to ensure that applicable state purchasing law is followed, in accordance with Section 31-7-13, Miss. Code of 1972, as amended.

Auditee Response

The district will take care to ensure all purchases are in compliance with state purchasing laws.

2013-07

Condition

The district approved payment of the June 28, 2013 claims docket on July 1, 2013 and dated the checks on June 30, 2013. Therefore, the district recorded the payment of these claims payable liabilities – \$50,728 in total – prior to the end of the fiscal year, even though they were still outstanding at June 30, 2013.

Criteria

The district must ensure that payment of claims is only made after board approval and only record checks in the general ledger as of the date they are actually paid.

Cause of Condition

Lack of control procedures to ensure claims are only paid after board approval and general ledger balances accurately reflect the liabilities of the district on any given date.

Effect of Condition

Payment of claims was reflected in the general ledger prior to the end of the June 30, 2013 fiscal year, whereas the liabilities were still outstanding at that date.

Recommendation

The district should only pay claims after proper board approval and only record checks in the general ledger when they are actually paid to ensure financial statement balances accurately reflect the financial position of the district on any given date.

Auditee Response

The district will take care to pay vendors and record in the general ledger only as approved by the board to ensure accurate general ledger balances.

Section III: Federal Award Findings and Questioned Costs

Material weakness in internal control over compliance

2013-08

Programs: Child Nutrition Cluster – CFDA#'s 10.553, 10.555, 10.559; School Improvement Grant – CFDA# 84.377

Criteria

Management is responsible for complying with the requirements of the State of Mississippi, Department of Education, Policies and Procedures as set forth in the *Financial Accounting Manual for Public School Districts, Section D: Purchasing* which requires that school districts establish a purchasing system to meet the objectives of "buying materials, supplies, commodities, and services that are of the right quality, quantity, price and from the right source with delivery

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

being in the right place". A well designed purchasing system should include: a) purchase requisitions, b) purchase orders, and c) receiving reports. Goods should not be purchased until a purchase order has been approved by the district.

Condition

During testing, it was noted that multiple purchases failed to meet the minimum criteria established by the state for a purchasing system. These items did not have an applicable receiving report or required signature acknowledging date of the actual receipt, and multiple items were purchased before the applicable purchase order was approved by the district's purchasing agent.

Cause of Condition

The internal control structure over compliance for purchasing has not been effectively designed to ensure all expenditures are allowable, approved, and properly received by the district as described in the criteria above.

Effect of Condition

Due to this deficiency in internal control over compliance, the district could be purchasing goods that are not in compliance with federal award requirements since purchases can be made without proper approval. In addition due to no acknowledgement of receipt, the district could be using federal funds to pay for goods that were not actually received by the district.

Recommendation

The district should adhere to the purchasing system prescribed by the state manual for school districts and complete receiving reports with proper documentation for all expenditures of all federal funds.

Material weakness in internal control over compliance

2013-09 **Programs:** Title I, Part A – CFDA# 84.010; School Improvement Grant – CFDA# 84.377

Compliance Requirement – Cash Management

The requirements for cash management are contained in the A-102 Common Rule (§__21), OMB Circular A-110 (2 CFR §215.22), Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested.

Condition

During testing, multiple requests for reimbursement and applicable supporting documentation showing funds had actually been spent by the district could not be provided. Without supporting documentation the following additional criteria could not be tested:

1. A request for funds that is not supported by either an attached accounts payable or payroll report.
2. A request for funds that is not mathematically accurate.
3. A request for funds that was not approved by supervisory personnel.
4. A request for funds that was not on a reimbursement basis.
5. Failure to reconcile the program checking account at month end.
6. A request for funds was submitted timely in accordance with state and federal requirements.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Cause of Condition

The internal control structure over compliance for cash management has not been effectively designed to ensure compliance with federal award requirements that all proper documentation is secured as described in the criteria above.

Effect of Condition

Due to this deficiency in internal control over compliance, the district could be paid with federal funds for expenditures that have not been made or were made for general district activities instead of federal program activities, resulting in non-compliance with the federal award requirements noted above.

Recommendation

The district should establish policies and procedures to ensure reimbursement of federal funds is only requested for expenditures actually made by the district, expenditures that are in compliance with federal award compliance requirements, and maintain adequate documentation supporting these requests.

Significant deficiency in internal control over compliance

2013-10 **Programs:** Title I, Part A – CFDA# 84.010; School Improvement Grant – CFDA# 84.377

Compliance Requirement – Suspension and Debarment

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. Covered transactions include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g. grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR §180.220 of the government-wide non-procurement debarment and suspension guidance contains those additional limited circumstances.

Condition

During testing, we examined numerous expenditures that included no documentation that the district verified the vendor's suspension or debarment.

Cause of Condition

The internal control structure over compliance has not been effectively designed to ensure compliance with federal award requirements that prevent certain vendors from contracting with federal entities and sub recipients of such awards.

Effect of Condition

Due to this deficiency in internal control over compliance, the district could be in non-compliance with federal program requirements prohibiting transactions with certain vendors.

Recommendation

Before entering into a covered transaction with federal funds, the district should verify through the System for Award Management website that the vendor is not included on the Excluded Parties List System (EPLS) and thus suspended or debarred from contracting with federal entities.

OKOLONA MUNICIPAL SEPARATE SCHOOL DISTRICT
AUDITEE'S SUMMARY OF PRIOR YEAR 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, 2013:

Finding 2012-01

Programs: Title I, Part A Cluster (CFDA# 84.010), School Improvement Grants (CFDA# 84.377), Twenty-first Century Community Learning Centers (CFDA# 84.287), Education Technology State Grants (CFDA# 84.318/84.386), as passed through the Mississippi Department of Education

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 still existed at June 30, 2013. See Finding 2013-08.

Finding 2012-02

Programs: Title I, Part A Cluster (CFDA# 84.010), School Improvement Grants (CFDA# 84.377), Twenty-first Century Community Learning Centers (CFDA# 84.287), Education Technology State Grants (CFDA# 84.318/84.386), as passed through the Mississippi Department of Education

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 still existed at June 30, 2013. See Finding 2013-09.

Finding 2012-03

Programs: Title I, Part A Cluster (CFDA# 84.010), School Improvement Grants (CFDA# 84.377), Twenty-first Century Community Learning Centers (CFDA# 84.287), Education Technology State Grants (CFDA# 84.318/84.386), as passed through the Mississippi Department of Education

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 still existed at June 30, 2013. See Finding 2013-10.

AUDITEE'S CORRECTIVE ACTION PLAN



Okolona Municipal Separate School District
Office of the Superintendent
411 W. Main Street
Okolona, MS 38860
Telephone # (662) 447-2353
Fax # (662) 447-9955

Mr. Dexter Green, Superintendent of Education

Mrs. Beverly Smith, Executive Assistant

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section 315(c) of OMB Circular A-133, the Okolona Municipal Separate School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Finding and Questioned Costs for the year ended June 30, 2013.

Finding 2013-08

Name of Contact Person Responsible for Corrective Action

Dexter Green and Cassandra Trimble

Corrective Action Planned

The district will prepare receiving reports and other adequate documentation to ensure all goods and services invoiced have been actually received by the district prior to payment.

Completion Date

This was a repeat finding from the 2012 fiscal year. The district's corrective action plan addressing this finding was implemented in October 2013.

Finding 2013-09

Name of Contact Person Responsible for Corrective Action

Dexter Green and Cassandra Trimble

Corrective Action Planned

The district will ensure entity funds have been made for program costs before applying for federal funds reimbursement and maintain all applicable supporting documentation.

Completion Date

This was a repeat finding from the 2012 fiscal year. The district's corrective action plan addressing this finding was implemented in October 2013.

Finding 2013-10

Name of Contact Person Responsible for Corrective Action

Dexter Green and Cassandra Trimble

Corrective Action Planned

The district will verify all vendors contracted with federal funds are not suspended or debarred from contracting with federal agencies.

Completion Date

This was a repeat finding from the 2012 fiscal year. The district's corrective action plan addressing this finding was implemented in October 2013.