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Starkville School District
Audited Financial Statements
June 30, 2010

Fortenberry & Ballard, PC
Certified Public Accountants

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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2010, which collectively comprise the Starkville School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Starkville School District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Starkville School District, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012, on our consideration of the Starkville 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

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

The other supplemental 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, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 28, 2012

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**STARKVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The discussion and analysis of Starkville School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2010 increased \$148,757, including a prior period adjustment of (\$688,026), which represents a 1% increase from fiscal year 2009. Total net assets for 2009 increased \$551,906, including a prior period adjustment of (\$136,000), which represents a 4% increase from fiscal year 2008.
- General revenues amounted to \$31,944,891 and \$32,585,662, or 73% and 75% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$12,005,120, or 27% of total revenues for 2010, and \$11,032,246, or 25% of total revenues for 2009.
- The District had \$43,113,228 and \$42,930,002 in expenses for the fiscal years 2010 and 2009; only \$12,005,120 for 2010 and \$11,032,246 for 2009 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$31,944,891 and \$32,585,662 for 2009 were adequate to provide for these programs.
- Among major funds, the General Fund had \$28,057,391 in revenues and \$28,042,617 in expenditures for 2010, and \$29,470,401 in revenues and \$29,333,260 in expenditures for 2009. The General Fund's fund balance decreased by \$233,312 from 2009 to 2010, and decreased \$415,218, including a prior period adjustment of \$35,893, from 2008 to 2009.
- Capital assets, net of accumulated depreciation, increased by \$8,022,593 for 2010 and increased by \$10,544,784 for 2009. The increase for 2010 was due primarily to the addition to land, construction in progress, mobile equipment and furniture and equipment.
- Long-term debt increased by \$10,364,218 for 2010 and increased by \$8,760,640 for 2009. The increase for 2010 was due primarily to the issuance of general obligation bond in the amount of \$8,575,000, refunding of a limited obligation bond in the amount of \$1,460,000 and a qualified school construction bond in the amount of \$3,000,000. In addition, the liability for compensated absences decreased by \$4,435 for 2010 and increased by \$23,769 for 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's Balance Sheet is reconciled to the Statement of Net Assets, and the governmental fund's 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 fund's Balance Sheet and in the governmental fund's Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other 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. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

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.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund.

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.

Also, included in the other supplemental information section are 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. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$13,962,349 as of June 30, 2010.

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 assets at June 30, 2010, and June 30, 2009.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Current assets	\$ 12,621,095	6,120,654	106%
Restricted assets	6,455	4,259,793	(100)%
Capital assets, net	<u>34,266,634</u>	<u>26,244,041</u>	31%
Total assets	<u>46,894,184</u>	<u>36,624,488</u>	28%
Current liabilities	255,102	493,946	(48)%
Long-term debt outstanding	<u>32,676,733</u>	<u>22,316,950</u>	46%
Total liabilities	<u>32,931,835</u>	<u>22,810,896</u>	44%
Net assets:			
Invested in capital assets, net of related debt	1,921,807	8,588,256	(78)%
Restricted	9,863,087	2,890,326	241%
Unrestricted	<u>2,177,455</u>	<u>2,335,010</u>	(7)%
Total net assets	<u>\$ 13,962,349</u>	<u>13,813,592</u>	1%

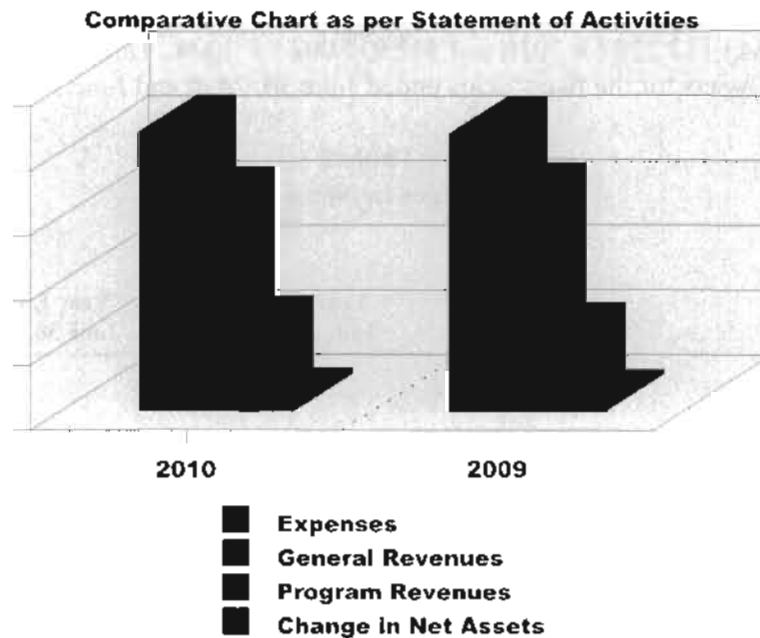
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Proceeds from the issuance of general obligation bond in the amount of \$8,575,000, refunding of a limited obligation bond in the amount of \$1,460,000 and issuance of a qualified school construction bond in the amount of \$3,000,000.
- Increase in net capital assets in the amount of \$8,022,593.
- The principal retirement of \$1,255,782 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$43,950,011 and \$43,617,908, respectively. The total cost of all programs and services was \$43,113,228 for 2010 and \$42,930,002 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

Table 2
Changes in Net Assets

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 2,178,622	1,993,561	9%
Operating grants and contributions	9,711,792	9,038,685	7%
Capital grants and contributions	114,706		
Total program revenues	<u>12,005,120</u>	<u>11,032,246</u>	9%
General revenues:			
Property taxes	13,665,317	13,196,574	4%
Grants and contributions not restricted	17,797,793	17,803,876	0%
Unrestricted investment earnings	163,314	284,416	(43)%
Sixteenth section sources	112,580	80,267	40%
Other	205,887	1,220,529	(83)%
Total general revenues	<u>31,944,891</u>	<u>32,585,662</u>	(2)%
Total revenues	<u>43,950,011</u>	<u>43,617,908</u>	1%
Expenses:			
Instruction	24,291,396	24,664,249	(2)%
Support services	13,255,890	13,133,874	1%
Non-instructional	4,742,564	4,305,814	10%
Sixteenth section	21,115	48,037	(56)%
Interest on long-term debt	802,263	778,028	3%
Total expenses	<u>43,113,228</u>	<u>42,930,002</u>	0%
Increase (Decrease) in net assets	<u>836,783</u>	<u>687,906</u>	22%
Net Assets, July 1, as originally reported	13,813,592	13,261,686	4%
Prior Period Adjustment	<u>(688,026)</u>	<u>(136,000)</u>	(406)%
Net Assets, July 1, as restated	<u>13,125,566</u>	<u>13,125,686</u>	0%
Net Assets, June 30	<u>\$ 13,962,349</u>	<u>13,813,592</u>	1%



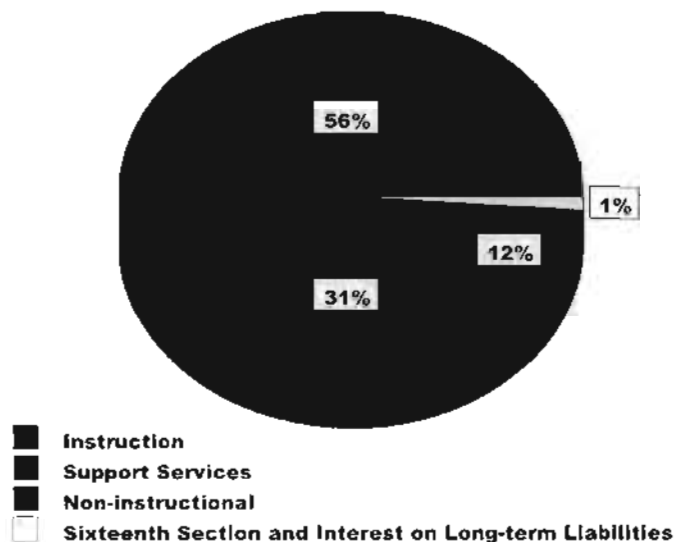
Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services 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

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2010</u>	<u>2009</u>	
Instruction	\$ 24,291,396	24,664,249	(2)%
Support services	13,255,890	13,133,874	1%
Non-instructional	4,742,564	4,305,814	10%
Sixteenth section	21,115	48,037	(56)%
Interest on long-term liabilities	802,263	778,028	3%
Total expenses	\$ 43,113,228	42,930,002	0%

Net (Expense) Revenue			
	2010	2009	Percentage Change
Instruction	\$ (18,989,068)	(20,808,189)	(9)%
Support services	(10,683,796)	(10,642,084)	0%
Non-instructional	(628,872)	370,428	(270)%
Sixteenth section	(4,109)	(39,883)	(90)%
Interest on long-term liabilities	(802,263)	(778,028)	3%
Total net (expense) revenue	\$ (31,108,108)	(31,897,756)	(2)%

Chart of Expenses as per Statement of Activities



- Net cost of governmental activities (\$31,108,108 for 2010 and \$31,897,756 for 2009) was financed by general revenue, which is primarily made up of property taxes (\$13,665,317 for 2010 and \$13,196,574 for 2009) and state and federal revenues (\$17,797,793 for 2010 and \$17,803,876 for 2009). In addition, there was \$112,580 and \$80,267 in Sixteenth Section sources for 2010 and 2009, respectively.
- Investment earnings amounted to \$163,314 for 2010 and \$284,416 for 2009.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$12,590,609, an increase of \$2,371,657, which includes the increase in inventory of \$17,574. \$5,183,573 or 41% of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$7,407,036 or 59% is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, debt service, capital projects, unemployment benefits, forestry improvement purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$233,312. The fund balance of Other Governmental Funds showed an increase in the amount of \$872,787, which includes an increase in reserve for inventory of \$17,574 to reflect the actual inventory for the current fiscal year. The increase in the fund balance of the other major fund were as follows:

Major Fund		Increase (Decrease)
Summer Food Service Fund 2009	\$	1,362
GOB 2007 Building Fund		1,730,820

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget.

- Budgeted amounts for revenue from local and state sources in the General Fund were increased during the fiscal year to reflect an increase in ad valorem receipts.
- Budgeted amounts for support services and noninstructional services expenditures in the General Fund were decreased during the fiscal year to more accurately reflect actual expenditures incurred. Amounts originally budgeted were overstated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2010, the District's total capital assets were \$47,131,568, including land, construction in progress, buildings, building improvements, improvements other than buildings, buses, other school vehicles, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents an increase of \$8,853,587 from 2009. Total accumulated depreciation as of June 30, 2010, was \$12,864,934, and total depreciation expense for the year was \$707,005, resulting in total net capital assets of \$34,266,634.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Land	\$ 194,970	187,470	4%
Construction in progress	8,028,208	11,740,428	(32)%
Buildings	23,479,862	11,184,403	110%
Building improvements	142,582	47,862	198%
Improvements other than buildings	1,442,013	1,617,682	(11)%
Mobile equipment	806,785	1,098,631	(27)%
Furniture and equipment	169,471	367,565	(54)%
Leased property under capital lease	2,743		
Total	\$ <u>34,266,634</u>	<u>26,244,041</u>	31%

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

Debt Administration. At June 30, 2010, the District had \$32,676,733 in outstanding long-term debt, of which \$1,879,065 is due within one year. During the fiscal year, the District received proceeds from the issuance of general obligation bond in the amount of \$8,575,000, refunding limited obligation bond in the amount of \$1,460,000 and qualified school construction bond in the amount of \$3,000,000. The District made principal payments in the amount of \$1,255,782. The liability for compensated absences decreased \$4,435 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 27,695,000	20,170,000	37%
Limited obligation bonds payable	1,375,000	1,415,000	(3)%
Three mill notes payable	118,000	145,000	(19)%
Obligations under capital leases	156,827	179,287	(13)%
Obligations under energy efficiency leases	27,319	55,560	(51)%
Qualified school construction bonds payable	3,000,000		
Other loans payable		43,081	(100)%
Compensated absences payable	304,587	309,022	(1)%
Total	\$ 32,676,733	22,316,950	46%

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

CURRENT ISSUES

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

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

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2009-2010 year decreased 3% to 3,975 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Starkville School District, 401 Greensboro Street, Starkville, MS 39759.

FINANCIAL STATEMENTS

STARKVILLE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,373,306
Investments	15,407
Due from other governments	2,154,037
Accrued interest receivable	123
Other receivables, net	7,514
Inventories	70,708
Restricted assets	6,455
Capital assets, non-depreciable:	
Land	194,970
Construction in progress	8,028,208
Capital assets, net of accumulated depreciation:	
Buildings	23,479,862
Building improvements	142,582
Improvements other than buildings	1,442,013
Mobile equipment	806,785
Furniture and equipment	169,471
Leased property under capital leases	2,743
Total Assets	46,894,184
Liabilities	
Accounts payable and accrued liabilities	35,401
Interest payable on long-term liabilities	218,161
Other payables	1,540
Long-term liabilities (due within one year):	
Capital related liabilities	1,851,746
Non-capital related liabilities	27,319
Long-term liabilities (due beyond one year):	
Capital related liabilities	30,493,081
Non-capital related liabilities	304,587
Total Liabilities	32,931,835
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,921,807
Restricted For	
Expendable:	
School-based activities	2,744,920
Debt service	1,646,729
Capital improvements	5,264,859
Forestry improvements	91,453
Unemployment benefits	113,503
Non-expendable:	
Sixteenth section	1,623
Unrestricted	2,177,455
Total Net Assets	\$ 13,962,349

The accompanying notes are an integral part of this statement

STARKVILLE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:					Governmental Activities
Instruction	24,291,396	1,500,563	3,687,059	114,706	(18,989,068)
Support services	13,255,890	--	2,572,094	--	(10,683,796)
Noninstructional services	4,742,564	661,053	3,452,639	--	(828,872)
Sixteenth section	21,115	17,006	--	--	(4,109)
Interest on long-term liabilities	802,263	--	--	--	(802,263)
Total Governmental Activities	\$ 43,113,228	\$ 2,178,622	\$ 9,711,792	\$ 114,706	(31,108,108)
General Revenues:					
Taxes:					
General purpose levies					11,242,330
Debt purpose levies					2,422,987
Unrestricted grants and contributions:					
State					16,343,762
Federal					1,454,031
Unrestricted investment earnings					163,314
Sixteenth section sources					112,580
Other					205,887
Total General Revenues					31,944,891
Change in Net Assets					836,783
Net Assets - Beginning, as originally reported					13,813,592
Prior Period Adjustment					(688,026)
Net Assets - Beginning, as restated					13,125,566
Net Assets - Ending					\$ 13,962,349

The accompanying notes are an integral part of this statement.

STARKVILLE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Summer Food Service Fund 2009
Assets		
<i>Cash and cash equivalents</i>	\$ 2,137,483	\$ 8,981
<i>Cash with fiscal agents</i>	--	--
<i>Investments</i>	--	--
<i>Due from other governments</i>	461,822	69,850
<i>Accrued interest receivable</i>	--	--
<i>Other receivables, net</i>	--	--
<i>Due from other funds</i>	1,352	--
<i>Inventories</i>	--	--
Total Assets	\$ 2,600,657	\$ 78,831
Liabilities and Fund Balances		
Liabilities		
<i>Accounts payable and accrued liabilities</i>	\$ 11,461	\$ 19,139
<i>Due to other funds</i>	78,295	--
<i>Other payables</i>	1,540	--
Total Liabilities	91,296	19,139
Fund Balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Unemployment benefits</i>	--	--
<i>Forestry improvements</i>	--	--
<i>Capital project funds</i>	--	--
<i>Debt service funds</i>	--	--
<i>Permanent funds</i>	--	--
Unreserved:		
Undesignated, reported in:		
General fund	2,509,361	--
Special revenue funds	--	59,692
Total Fund Balances	2,509,361	59,692
Total Liabilities and Fund Balances	\$ 2,600,657	\$ 78,831

The accompanying notes are an integral part of this statement.

EXHIBIT C

GOB 2007 Building Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,887,900	\$ 3,340,442	\$ 10,374,806
--	4,955	4,955
--	15,407	15,407
--	1,621,013	2,152,685
--	123	123
--	7,514	7,514
--	78,295	79,647
--	70,708	70,708
<u>\$ 4,887,900</u>	<u>\$ 5,138,457</u>	<u>\$ 12,705,845</u>
\$ --	\$ 4,801	\$ 35,401
--	--	78,295
--	--	1,540
<u>--</u>	<u>4,801</u>	<u>115,236</u>
--	70,708	70,708
--	113,503	113,503
--	91,453	91,453
4,887,900	376,959	5,264,859
--	1,864,890	1,864,890
--	1,623	1,623
--	--	2,509,361
--	2,614,520	2,674,212
<u>4,887,900</u>	<u>5,133,656</u>	<u>12,590,609</u>
<u>\$ 4,887,900</u>	<u>\$ 5,138,457</u>	<u>\$ 12,705,845</u>

STARKVILLE SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010*

Total Fund Balances - Governmental Funds	\$ 12,590,609
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	34,266,634
Liabilities due in one year are not reported in the funds.	(1,879,065)
Payables for bond principal which are not due in the current period are not reported in the funds.	(30,270,000)
Payables for capital leases not due in the current period are not reported in the funds.	(133,390)
Payables for bond interest which are not due in the current period are not reported in the funds.	(218,161)
Payables for notes not due in the current period are not reported in the funds.	(89,691)
Payables for compensated absences not due in the current period are not reported in the funds.	(304,587)
Total Net Assets - Governmental Activities	\$ <u>13,962,349</u>

The accompanying notes are an integral part of this statement.

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STARKVILLE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Summer Food Service Fund 2009
Revenues:		
Local sources	\$ 11,388,220	\$ 884
Intermediate sources	16,281	--
State sources	16,355,919	--
Federal sources	296,971	156,933
Sixteenth section sources	--	--
Total Revenues	28,057,391	157,817
Expenditures:		
Instruction	17,457,938	--
Support services	10,283,302	1,163
Noninstructional services	280	67,833
Sixteenth section	--	--
Facilities acquisition and construction	139,220	--
Debt service:		
Principal	93,782	--
Interest	63,522	--
Other	4,573	--
Total Expenditures	28,042,617	68,996
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,774	88,821
Other Financing Sources (Uses):		
Proceeds of general obligation bonds	--	--
Proceeds of refunding bonds	--	--
Sale of transportation equipment	4,588	--
Transfers in	--	--
Transfers out	(245,174)	(85,131)
Other financing uses	(7,500)	(2,328)
Total Other Financing Sources (Uses)	(248,086)	(87,459)
Net Change in Fund Balances	(233,312)	1,362
Fund Balances:		
July 1, 2010	2,742,673	58,330
Increase (decrease) in reserve for inventory	--	--
June 30, 2011	\$ 2,509,361	\$ 59,692

The accompanying notes are an integral part of this statement.

EXHIBIT D

GOB 2007 Building Fund	Other Governmental Funds	Total Governmental Funds
\$ 84,095	\$ 4,632,219	\$ 16,105,418
--	58,939	75,220
--	2,627,745	18,983,664
--	8,202,219	8,656,123
--	129,586	129,586
<u>84,095</u>	<u>15,650,708</u>	<u>43,950,011</u>
--	6,400,865	23,858,803
--	2,928,521	13,212,986
--	4,618,996	4,687,109
--	21,115	21,115
6,928,275	2,190,845	9,258,340
--	1,162,000	1,255,782
--	764,708	828,230
--	45,430	50,003
<u>6,928,275</u>	<u>18,132,480</u>	<u>53,172,368</u>
<u>(6,844,180)</u>	<u>(2,481,772)</u>	<u>(9,222,357)</u>
8,575,000	3,000,000	11,575,000
--	1,421,680	1,421,680
--	--	4,588
--	782,501	782,501
--	(452,196)	(782,501)
--	(1,415,000)	(1,424,828)
<u>8,575,000</u>	<u>3,336,985</u>	<u>11,576,440</u>
1,730,820	855,213	2,354,083
3,157,080	4,260,869	10,218,952
--	17,574	17,574
<u>\$ 4,887,900</u>	<u>\$ 5,133,656</u>	<u>\$ 12,590,609</u>

STARKVILLE SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010*

Net Changes in Fund Balances - Governmental Funds	\$ 2,354,083
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	9,433,627
The depreciation of capital assets used in governmental activities is not reported in the funds.	(707,005)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(6,112)
The gain or loss on the sale of capital assets is not reported in the funds.	(5,303)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(4,588)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,135,000
Repayment of lease principal is an expenditure in the funds but is not an expense in the SOA.	50,701
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	43,081
(Increase) decrease in accrued interest from beginning of period to end of period.	114,290
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	27,000
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	17,574
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	4,435
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(13,035,000)
Payment of refunded debt is an other financing uses but not in the SOA	1,415,000
Change in Net Assets of Governmental Activities	\$ 836,783

The accompanying notes are an integral part of this statement

STARKVILLE SCHOOL DISTRICT**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES****FIDUCIARY FUNDS**

JUNE 30, 2010

	Agency Funds
Assets	
<i>Cash and other deposits</i>	\$ 1,987,413
Total Assets	<u>\$ 1,987,413</u>
Liabilities	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 1,878,951
<i>Due to student clubs</i>	33,212
<i>Due to other funds</i>	1,352
<i>Other payables</i>	73,898
Total Liabilities	<u>\$ 1,987,413</u>

The accompanying notes are an integral part of this statement.

Starkville School District
Notes to the Financial Statements
June 30, 2010

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(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 Starkville, Mississippi 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, Starkville 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. Basis of Presentation

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds,

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

notes and other debt attributable to the acquisition, construction or improvement of those assets.

2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly 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. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Summer Food Service Fund 2009 - This fund accounts for the federal funds received to provide food service programs to low-income children during the summer months.

GOB 2007 Building Fund - This is the school district's fund for accounting for the general obligation bond funds which are being used for capital improvements.

All other governmental funds not meeting the criteria established for major funds are

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

presented in the other governmental column of the fund financial statements.

These fiduciary funds include also three (3) agency funds, which are used to report resources held by the district in a purely custodial capacity. Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are 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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 authorities of the county 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 are both restricted and unrestricted net assets 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.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the Government Finance Officers Association and are

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

consistent with the broad classifications recommended in the *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year.

F. Assets, liabilities, and net assets or equity

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 Sections 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, as well as for its component units, are reported at fair market value.

2. Receivables and payables

Activity 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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 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 Assets because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

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 or business-type activities columns in the government-wide Statement of Net Assets. 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.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal 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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

Reserved for capital projects - An account that represents that portion of fund balance in the Capital Projects Fund which is legally restricted and not available for spending for any purpose other than that for which it is restricted.

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

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

Reserved for forestry improvements - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

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

(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 are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as 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 and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$10,374,806 and \$1,987,413, respectively.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

The carrying amount of deposits reported in the government-wide financial statements was cash and cash equivalents of \$10,373,306, and restricted assets of \$1,500. The bank balance was \$14,071,068.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$4,955. This amount is shown as restricted assets on Exhibit A.

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, 2010, some of the district's bank balance of \$14,071,068 was exposed to custodial credit risk.

Investments

As of June 30, 2010, the district had the following investments in the investment pool.

Investment Type	Rating	Maturities (in years)	Fair Value
Federated Securities Corp. Money Market	none	1 to 5	\$ 15,407
Total Investments			<u>\$ 15,407</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2010, the district had the following investments:

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Investment Type	Maturities (in years)	% of Total Investments
Federated Securities Corp. Money Market	\$ 15,407	100%

(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	Fiduciary Fund	\$ 1,352
Other Governmental Funds	General Fund	78,295
Total		\$ 79,647

The purpose of the Due From/To other funds balances was to cover deficit cash balances. All balances are expected to be repaid within one year from the date of the financial statements.

B. Interfund Transfers

Transfers In	Transfers Out	Amount
Other Governmental Funds	General Fund	\$ 245,174
	Summer Food Service Fund 2009	85,131
	Other Governmental Funds	452,196
Total		\$ 782,501

Transfers were made for indirect cost transfers and budgetary allocations. All transfers were routine and consistent with the fund making the transfer.

(4) Restricted Assets

The restricted assets represent the cash balance, totaling \$1,500, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash with fiscal agents balance totaling \$4,955 of the MAEP Limited Obligation Bond Fund (Debt Service Fund).

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(5) Capital Assets

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

	Balance 7-1-2009	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2010
<u>Non-depreciable capital assets:</u>						
Land	\$ 187,470	7,500				194,970
Construction in progress	11,740,428	9,250,840		(12,834,529)	(128,531)	8,028,208
Total non-depreciable capital assets	11,927,898	9,258,340	0	(12,834,529)	(128,531)	8,223,178
<u>Depreciable capital assets:</u>						
Buildings	19,848,409			12,834,529	(331,745)	32,351,193
Building improvements	54,388				354,886	409,274
Improvements other than buildings	2,489,626				(231,858)	2,257,768
Mobile equipment	2,694,254	103,800	98,910			2,699,144
Furniture and equipment	1,263,406	71,487	61,122		(139,729)	1,134,042
Leased property under capital leases					56,969	56,969
Total depreciable capital assets	26,350,083	175,287	160,032	12,834,529	(291,477)	38,908,390
<u>Less accumulated depreciation for:</u>						
Buildings	8,664,006	355,425			(148,100)	8,871,331
Building improvements	6,526	5,056			255,110	266,692
Improvements other than buildings	871,944	90,311			(146,500)	815,755
Mobile equipment	1,595,623	150,304	89,019		235,451	1,892,359
Furniture and equipment	895,841	99,448	55,010		24,292	964,571
Leased property under capital leases		6,461			47,765	54,226
Total accumulated depreciation	12,033,940	707,005	144,029	0	268,018	12,864,934
Total depreciable capital assets, net	14,316,143	(531,718)	16,003	12,834,529	(559,495)	26,043,456
Governmental activities capital assets, net	\$ 26,244,041	8,726,622	16,003	0	(688,026)	34,266,634

Adjustments were made to correct inaccurate calculations and to record assets purchased and retired in the prior periods. Several adjustments were made to correctly categorize the assets.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 494,904
Support services	141,401
Non-Instructional	70,700
Total depreciation expense	\$ 707,005

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

Commitments under construction contracts at June 30, 2010, are summarized as follows:

	Spent to June 30, 2010	Remaining Commitment
\$		
Addition to Armstrong Middle School	5,187,901	31,254
Addition to Henderson/Ward/Stewart	2,644,493	620,345
Armstrong Middle School Cafeteria	195,814	899,164
Total	<u>\$ 8,028,208</u>	<u>1,550,763</u>

Construction projects included in governmental activities are funded with 2007 Building Fund (#3907).

(6) Long-term liabilities

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

	Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010	Amounts due within one year
A. General obligation bonds payable	\$ 20,170,000	8,575,000	1,050,000	27,695,000	1,640,000
B. Limited obligation bonds payable	1,415,000		1,415,000	0	
Limited obligation bonds refunding payable		1,460,000	85,000	1,375,000	160,000
C. Three mill notes payable	145,000		27,000	118,000	28,309
D. Obligations under capital leases	179,287		22,460	156,827	23,437
E. Obligations under energy efficiency leases	55,560		28,241	27,319	27,319
F. Qualified school construction bonds payable		3,000,000		3,000,000	
G. Other loans payable	43,081		43,081	0	
H. Compensated absences payable	309,022		4,435	304,587	
Total	<u>\$ 22,316,950</u>	<u>13,035,000</u>	<u>2,675,217</u>	<u>32,676,733</u>	<u>1,879,065</u>

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
GOB, Series 2003	2.89%	06-25-03	12-01-15	\$ 7,470,000	4,695,000
GOB, Series 2007	3.60%	12-21-07	03-01-20	5,000,000	4,750,000
GOB, Series 2008	5.00%	10-15-08	09-01-23	9,925,000	9,675,000
GOB, Series 2009	3.75%	10-22-09	09-01-24	8,575,000	8,575,000
Total				<u>\$ 30,970,000</u>	<u>27,695,000</u>

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

1. General obligation bond issue of 2003:

Year Ending June 30		Principal	Interest	Total
2011	\$	740,000	133,960	873,960
2012		705,000	113,210	818,210
2013		765,000	91,160	856,160
2014		755,000	67,983	822,983
2015		810,000	43,320	853,320
2016		920,000	15,180	935,180
Total	\$	<u>4,695,000</u>	<u>464,813</u>	<u>5,159,813</u>

This debt will be retired from the Bond Issue Debt Service Fund (#4031).

2. General obligation bond issue of 2007:

Year Ending June 30		Principal	Interest	Total
2011	\$	250,000	171,000	421,000
2012		300,000	162,000	462,000
2013		350,000	151,200	501,200
2014		300,000	138,600	438,600
2015		2,800,000	474,300	3,274,300
2016 - 2020		750,000	27,000	777,000
Total	\$	<u>4,750,000</u>	<u>1,124,100</u>	<u>5,874,100</u>

This debt will be retired from the Bond Issue Debt Service Fund (#4037).

3. General obligation bond issue of 2008:

Year Ending June 30		Principal	Interest	Total
2011	\$	300,000	390,656	690,656
2012		400,000	373,156	773,156
2013		450,000	351,906	801,906
2014		500,000	328,156	828,156
2015		600,000	300,656	900,656
2016 - 2020		3,300,000	898,075	4,198,075
2021 - 2024		4,125,000	390,250	4,515,250
Total	\$	<u>9,675,000</u>	<u>3,032,855</u>	<u>12,707,855</u>

This debt will be retired from the Bond Issue Debt Service Fund (#4037).

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

4. General obligation bond issue of 2009:

Year Ending June 30		Principal	Interest	Total
2011	\$	350,000	431,784	781,784
2012		235,000	274,847	509,847
2013		250,000	266,212	516,212
2014		275,000	257,025	532,025
2015		325,000	246,525	571,525
2016 - 2020		1,950,000	865,069	2,815,069
2021 - 2025		5,190,000	699,044	5,889,044
Total	\$	<u>8,575,000</u>	<u>3,040,506</u>	<u>11,615,506</u>

This debt will be retired from the Debt Service Fund.

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

Year Ending June 30		Principal	Interest	Total
2011	\$	1,640,000	1,127,400	2,767,400
2012		1,640,000	923,213	2,563,213
2013		1,815,000	860,478	2,675,478
2014		1,830,000	791,764	2,621,764
2015		4,535,000	1,064,801	5,599,801
2016 - 2020		6,920,000	1,805,324	8,725,324
2021 - 2025		9,315,000	1,089,294	10,404,294
Total	\$	<u>27,695,000</u>	<u>7,662,274</u>	<u>35,357,274</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2010, the amount of outstanding bonded indebtedness was equal to 11% of property assessments as of October 1, 2009.

B. Limited obligations bonds payable

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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvements, Series 1998	4.80%	10-22-09	02-01-18	\$ <u>1,460,000</u>	<u>1,375,000</u>

1. Limited obligation bond issue of 1998:

This debt has been refunded during the fiscal year and retired from the Mississippi Adequate Education Retirement Fund.

2. Limited obligation bond issue of 2009:

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 160,000	33,200	193,200
2012	165,000	30,000	195,000
2013	165,000	26,700	191,700
2014	170,000	23,400	193,400
2015	175,000	19,788	194,788
2016 - 2018	540,000	32,087	572,087
Total	\$ <u>1,375,000</u>	<u>165,175</u>	<u>1,540,175</u>

This debt will be retired from the Bond Issues Retirement Fund (#4035).

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

Current Refunding

On October 22, 2009, the district issued \$1,460,000 in State Aid Capital Improvement Refunding Bonds, Series 2009 with an average interest rate of 4.80% to advance refund \$1,415,000 of outstanding State Aid Capital Improvement Bonds, Series 1998 with an average interest rate of 4.8-4.85%. After \$36,750 for issuance costs and other miscellaneous payments, the net proceeds were \$1,421,680. Based on the debt agreement, the other miscellaneous payments were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the Bonds, Series 1998.

The district advance refunded the State Aid Capital Improvement Bonds, Series 1998 to reduce its total debt service payments over the remaining nine years of the debt by

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

approximately \$110,690 and to realize an economic gain of \$96,397.

The State Aid Capital Improvement Bonds, Series 1998 were called during the current fiscal year end.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note - 2003	3.49%	07-15-03	07-15-13	\$ 270,000	118,000

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 28,309	3,674	31,983
2012	29,314	2,668	31,982
2013	30,355	1,627	31,982
2014	30,022	549	30,571
Total	\$ 118,000	8,518	126,518

This debt will be retired from the Note Debt Service Fund.

D. Obligations under Capital Leases

The school district has entered into a lease agreement as lessee for financing the acquisition of equipment at a cost of \$243,583.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Equipment Lease 2006	4.28%	09-01-06	06-01-16	\$ 243,583	156,827

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 23,437	6,339	29,776
2012	24,456	5,320	29,776
2013	25,520	4,256	29,776
2014	26,630	3,146	29,776
2015	27,788	1,988	29,776
2016	28,996	780	29,776
Total	\$ 156,827	21,829	178,656

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

This debt will be retired from the District Maintenance Fund.

E. Obligations Under Energy Efficiency Lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trustmark energy efficiency lease	5.63%	05-01-01	05-01-11	\$ 233,944	27,319

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 27,319	775	28,094

This debt will be retired from the District Maintenance Fund.

An energy efficiency lease agreement dated April 23, 2011, was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$233,944 for the purchase of energy efficiency equipment, machinery and other energy saving items. Payments of the lease

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

shall be made from the District Maintenance Fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

F. Qualified School Construction Bond Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bond	0.00%	10-08-09	09-15-24	\$ 3,000,000	3,000,000

G. Other Loans Payable

The school district has issued debt instruments granted under the authority of Section 57-39-205, Miss. Code Ann. (1972).

This debt has been retired from the District Maintenance Fund.

H. Compensated Absences Payable

As more fully explained in Note 1(F)(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.

(7) Short-Term Financing

During the fiscal year ended June 30, 2010, the school district participated in the following short-term financing for the purpose of to improve cash balances:

- A. Mississippi School Boards Association (MSBA) cash flow management program. Under this program, the school district issued a revenue anticipation note payable, and the proceeds from such issuance were held by the financial institution serving as trustee under the program. The school district made periodic withdrawals from the trustee based on its cash flow needs. A fixed rate of return was earned on the investable note proceeds held by the trustee, and such earnings were used to cover the interest and related issuance costs of the note. Depending upon whether the earnings were more or less than the interest and related issuance costs, the school

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

district received a distribution from or made a payment to the trustee.

All transactions related to participation in this program are accounted for as part of the school district's General Fund.

Description	Balance	Additions	Retirements	Balance
	7/1/2009			6/30/2010
Tax anticipation note	\$ 0	1,090,000	1,090,000	0

(8) Other Commitments

Commitments under construction contracts are described in Note 5.

(9) Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2010, 2009 and 2008 were \$2,804,235, \$2,722,365, and \$2,717,790, respectively, which equaled the required contributions for each year.

(10) Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2011	\$ 9,116
2012	9,116
2013	9,116
2014	9,116
2015	6,564
2016-2020	7,250
2021-2025	7,250
2026-2030	5,800
Total	<u>\$ 63,328</u>

(11) Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 63 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.

(12) Alternative School Consortium

The school district entered into an Alternative School Agreement dated September 2, 1993 creating the Quad County Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

approved by the Mississippi Department of Education and includes the Starkville School District and Oktibbeha County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Starkville School District has been designated as the lead school district for the Quad County Alternative School, and the operations of the consortium are included in its financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Quad County Alternative School.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended June 30, 2010

Revenues

Local sources:

Tuition from other LEA's within the state:

Oktibbeha County School District	\$	107,940
Noxubee County School District		123,360
Starkville School District		400,920
Total tuition from other LEA's within the state		<u>632,220</u>

Interest		<u>1,089</u>
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Total Revenues		<u>633,309</u>
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Expenditures

Salaries	682,617
Employee benefits	360,719
Purchased professional and technical services	460
Purchased property services	29,426
Other purchased services	1,198
Supplies	12,231
Property	8,289
Other	125

Total Expenditures	<u>1,095,065</u>
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Excess (Deficiency) of Revenues Over Expenditures	<u>(461,756)</u>
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Other Financing Sources:

Transfers in	<u>155,877</u>
Total Other Financing Sources/Uses	<u>155,877</u>

Net Change in Fund Balance	<u>(305,879)</u>
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Fund Balance:

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

July 1, 2009	305,879
June 30, 2010	\$ <u><u>0</u></u>

(13) Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. Annual sinking fund deposit amounts are inclusive of any interest earnings for the prior 12 months. The indicated deposit amount will be reduced by the amount of the prior 12 months' interest earnings. The amount on deposit at June 30, 2010 was \$0. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2011	\$ 0
2012	214,285
2013	214,285
2014	214,285
2015	214,285
2016 - 2020	1,071,430
2021 - 2025	1,071,430
Total	\$ <u><u>3,000,000</u></u>

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

(14) Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
Adjustments were made to correct inaccurate calculations and to record assets purchased and retired in the prior periods. Adjustments were also made to correctly categorize the assets accurately.	
	\$ <u>(688,026)</u>

(15) 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.

(16) Subsequent Events

Events that occur after the statement of net assets 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 assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Starkville School District evaluated the activity of the district through the date the report was available to be issued, and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements:

On March 8, 2011, the board approved the settlement of case styled *Kathi Wilson versus Starkville School District and Judy Couey* in the amount of \$30,000, individually.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2010

On April 12, 2011, the school district awarded the following bids: restroom renovations to West Brothers Construction Co. in the amount of \$997,800, foundation repair at Starkville High School to Ralph McKnight & Sons in the amount of \$113,179 and paving program at Starkville High School to West Brothers Construction Co. in the amount of \$511,747.

On April 20, 2011, the board directed the superintendent to immediately take administrative leave and authorized the board's special counsel to consult with the superintendent, through her attorney, concerning her continued employment with the school district.

On May 3, 2011, the board approved the settlement of case styled *Aleisha Johnson versus Starkville School District* in the amount of \$28,353.

REQUIRED SUPPLEMENTAL INFORMATION

STARKVILLE SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2010

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 11,710,752	11,324,591	11,388,220	(386,161)	63,629
Intermediate sources		16,281	16,281	16,281	0
State sources	16,951,529	16,355,917	16,355,919	(595,612)	2
Federal sources	208,500	296,971	296,971	88,471	0
Total Revenues	28,870,781	27,993,760	28,057,391	(877,021)	63,631
Expenditures:					
Instruction	17,326,677	17,476,347	17,457,938	(149,670)	18,409
Support services	10,452,595	9,916,543	10,283,302	536,052	(366,759)
Noninstructional services	5,000	280	280	4,720	0
Facilities acquisition and construction	125,000	176,599	139,220	(51,599)	37,379
Debt Service					
Principal	86,525	1,189,303	93,782	(1,102,778)	1,095,521
Interest	18,200	20,622	63,522	(2,422)	(42,900)
Other		3,150	4,573	(3,150)	(1,423)
Total Expenditures	28,013,997	28,782,844	28,042,617	(768,847)	740,227
Excess (Deficiency) of Revenues over (under) Expenditures	856,784	(789,084)	14,774	(1,645,868)	803,858
Other Financing Sources (Uses):					
Proceeds of loans		1,083,515		(1,083,515)	(1,083,515)
Insurance loss recoveries		1,721		(1,721)	(1,721)
Sale of transportation equipment		4,588	4,588	(4,588)	0
Transfers in	680,330	882,044		(201,714)	(882,044)
Other financing sources		81,560		(81,560)	(81,560)
Transfers out	(1,572,745)	(1,356,835)	(245,174)	(215,910)	1,111,661
Other financing uses		(8,923)	(7,500)	(8,923)	1,423
Total Other Financing Sources (Uses)	(892,415)	687,670	(248,086)	1,580,085	(935,756)
Net Change in Fund Balances	(35,631)	(101,414)	(233,312)	(65,783)	(131,898)
Fund Balances:					
July 1, 2009	0	3,117,865	2,742,673	3,117,865	(375,192)
June 30, 2010	\$ (35,631)	3,016,451	2,509,361	3,052,082	(507,090)

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

STARKVILLE SCHOOL DISTRICT
Exhibit 2
Budgetary Comparison Schedule
Summer Food Service Fund 2009
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	884	884	884	0
Federal sources		156,932	156,933	156,932	1
Total Revenues	0	157,816	157,817	157,816	1
Expenditures:					
Support services		1,162	1,163	(1,162)	(1)
Noninstructional services		10,381	67,833	(10,381)	(57,452)
Debt service					
Principal				0	0
Interest				0	0
Total Expenditures	0	11,543	68,996	(11,543)	(57,453)
Excess (Deficiency) of Revenues over (under) Expenditures	0	146,273	88,821	146,273	(57,452)
Other Financing Sources (Uses):					
Transfers in		(120)		(120)	120
Transfers out		(85,011)	(85,131)	(85,011)	(120)
Other financing uses		(50,000)	(2,328)	(50,000)	47,672
Total Other Financing Sources (Uses)	0	(135,131)	(87,459)	(135,131)	47,672
Net Change in Fund Balances	0	11,142	1,362	11,142	(9,780)
Fund Balances:					
July 1, 2009	0	50,878	58,330	50,878	7,452
June 30, 2010	\$ 0	62,020	59,692	62,020	(2,328)

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

Starkville School District

Notes to the Required Supplemental Information
For the Year Ended June 30, 2010

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

Starkville School District
Schedule 1

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education.		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 449,112
National School Lunch Program	10.555	1,049,259
Summer Food Service Program for Children	10.559	156,932
Total child nutrition cluster		<u>1,655,303</u>
Total passed-through the Mississippi Department of Education		<u>1,655,303</u>
Total U. S. Department of Agriculture		<u>1,655,303</u>
<u>U. S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	<u>112,790</u>
Total U. S. Department of Defense		<u>112,790</u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education.		
Title I Grants to Local Educational Agencies	84.010	1,027,218
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	<u>646,323</u>
Total Title I cluster		<u>1,673,541</u>
Career and Technical Education - Basic Grants to States	84.048	72,832
Safe and Drug Free Schools and Communities - National Grants	84.184A	262,669
A.L.M. Fund	84.184B	138,800
Safe Schools/Healthy Students Grants	84.184L	590,430
Safe and Drug Free Schools and Communities - State Grants	84.186	41,712
Education for Homeless Children and Youth	84.196	7,386
Even Start - State Educational Agencies	84.213	64,367
Fund for the Improvement of Education	84.215	172,533
Twenty-First Century Community Learning Centers	84.287	449,557
Special Education - State Personnel Development	84.323	4,500
Rural Education	84.358	115,727
Improving Teacher Quality - State Grants	84.367	271,565
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	<u>1,274,350</u>
Subtotal		<u>3,466,428</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	864,421
Special Education - Preschool Grants	84.173	39,566
ARRA - Special Education Grants to States, Recovery Act	84.391	108,382
ARRA - Special Education Preschool Grants, Recovery Act	84.392	<u>478</u>
Total special education cluster		<u>1,012,847</u>
Total passed-through the Mississippi Department of Education		<u>6,152,816</u>
Total U. S. Department of Education		<u>6,152,816</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Human Services:		
Child Abuse and Neglect Discretionary Activities	93.670	<u>57,060</u>
Total passed-through the Mississippi Department of Human Services		<u>57,060</u>
<u>Corporation for National and Community Service</u>		
Passed-through the Mississippi Department of Education:		
Learn and Service America - School and Community Based Programs	94.004	<u>6,711</u>
Total passed-through the Corporation for National and Community Service		<u>6,711</u>
TOTAL FOR ALL FEDERAL AWARDS		\$ <u><u>7,984,680</u></u>

Notes to Schedule

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

Starkville School District

Schedule 2

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2010

Expenditures	Total	Instruction and Other Student			General		School	
		Instructional	Administration	Other	Administration	Administration	Administration	Other
Salaries and fringe benefits	\$ 32,033,046	24,197,035	978,758	4,839,237				
Other	21,139,322	3,791,793	257,137	17,049,894				
Total	\$ 53,172,368	27,988,828	1,235,895	21,889,131				
Total number of students *	3,975							
Cost per student	\$ 13,377	7,041	311	518				5,507

NOTES TO SCHEDULE

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; Support Services - Business

School Administration - includes expenditures for the following functions: Support Services - School Administration

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

* Total number of students - the ADA report submission for month 9, which is the final submission for the school year

OTHER SUPPLEMENTAL INFORMATION

STARKVILLE COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 11,388,220	11,435,596	11,071,782	10,861,760
Intermediate sources	16,281	19,399	13,539	
State sources	16,355,919	17,748,296	17,865,996	17,076,168
Federal sources	296,971	267,110	305,996	351,631
Total Revenues	<u>28,057,391</u>	<u>29,470,401</u>	<u>29,257,313</u>	<u>28,289,559</u>
Expenditures:				
Instruction	17,457,938	18,684,085	18,065,261	17,147,641
Support services	10,283,302	10,518,044	10,107,363	9,601,888
Noninstructional services	280	959	331,205	3,951
Facilities acquisition and construction	139,220			420,315
Debt service:				
Principal	93,782	100,683	86,423	52,836
Interest	63,522	29,489	28,693	31,576
Other	4,573			9,077
Total Expenditures	<u>28,042,617</u>	<u>29,333,260</u>	<u>28,618,945</u>	<u>27,267,284</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>14,774</u>	<u>137,141</u>	<u>638,368</u>	<u>1,022,275</u>
Other Financing Sources (Uses):				
Insurance loss recoveries		41,910		
Sale of transportation equipment	4,588			
Sale of other property		3,581		
Operating transfers in		108,473	747,053	73,604
Other financing sources		2,346		
Operating transfers out	(245,174)	(527,833)	(953,426)	(186,258)
Other financing uses	(7,500)	(216,729)		(2,699)
Total Other Financing Sources (Uses)	<u>(248,086)</u>	<u>(588,252)</u>	<u>(206,373)</u>	<u>(115,353)</u>
Net Change in Fund Balances	<u>(233,312)</u>	<u>(451,111)</u>	<u>431,995</u>	<u>906,922</u>
Fund Balances:				
July 1, as originally reported	2,742,673	3,157,891	2,761,892	2,143,301
Prior period adjustments		35,893	(35,996)	(288,331)
July 1, as restated	<u>2,742,673</u>	<u>3,193,784</u>	<u>2,725,896</u>	<u>1,854,970</u>
June 30,	<u>\$ 2,509,361</u>	<u>2,742,673</u>	<u>3,157,891</u>	<u>2,761,892</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

STARKVILLE COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 16,105,418	16,559,951	15,218,403	14,597,892
Intermediate sources	75,220	85,066	80,871	56,395
State sources	18,983,664	20,628,605	21,024,351	18,424,932
Federal sources	8,656,123	6,243,263	6,952,988	6,134,230
Sixteenth section sources	129,586	88,421	41,088	41,829
Total Revenues	<u>43,950,011</u>	<u>43,605,306</u>	<u>43,317,701</u>	<u>39,265,278</u>
Expenditures:				
Instruction	23,858,803	23,769,489	23,347,466	20,945,897
Support services	13,212,986	13,295,830	13,371,653	12,343,333
Noninstructional services	4,687,109	4,282,266	4,400,406	3,590,134
Sixteenth section	21,115	48,037	8,249	3,974
Facilities acquisition and construction	9,258,340	11,061,571	842,032	420,315
Debt service:				
Principal	1,255,782	1,188,129	956,741	1,021,906
Interest	828,230	489,685	301,971	355,654
Other	50,003	89,857	39,299	11,137
Total Expenditures	<u>53,172,368</u>	<u>54,224,864</u>	<u>43,267,817</u>	<u>38,692,350</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(9,222,357)</u>	<u>(10,619,558)</u>	<u>49,884</u>	<u>572,928</u>
Other Financing Sources (Uses):				
Proceeds of general obligation bonds	11,575,000	9,925,000		
Proceeds of refunding bonds	1,421,680			
Insurance loss recoveries		41,910		
Sale of transportation equipment	4,588			
Sale of other property		3,581		
Operating transfers in	782,501	1,101,757	1,475,022	431,434
Other financing sources		60,549	5,057,549	10,664
Operating transfers out	(782,501)	(1,101,757)	(1,475,022)	(431,434)
Other financing uses	(1,424,828)	(462,077)	(9,859)	(11,165)
Total Other Financing Sources (Uses)	<u>11,576,440</u>	<u>9,568,963</u>	<u>5,047,690</u>	<u>(501)</u>
Net Change in Fund Balances	<u>2,354,083</u>	<u>(1,050,595)</u>	<u>5,097,574</u>	<u>572,427</u>
Fund Balances:				
July 1, as originally reported	10,218,952	11,162,847	5,956,200	5,428,257
Prior period adjustments		93,134	118,620	(55,868)
July 1, as restated	<u>10,218,952</u>	<u>11,255,981</u>	<u>6,074,820</u>	<u>5,372,389</u>
Increase (Decrease) in reserve for inventory	<u>17,574</u>	<u>13,566</u>	<u>(9,547)</u>	<u>11,384</u>
June 30,	<u>\$ 12,590,609</u>	<u>10,218,952</u>	<u>11,162,847</u>	<u>5,956,200</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2010, which collectively comprise the Starkville School District's basic financial statements and have issued our report thereon dated March 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 to be material weaknesses. [Findings 2010-1, 2010-2 and 2010-3].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct

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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*.

However, we noted a certain immaterial instance of noncompliance or other matter that we reported to management of the school district in a separate letter dated March 28, 2012, which is included in this report.

Starkville School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Starkville School District's responses 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 and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 28, 2012

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Starkville School District

Compliance

We have audited the compliance of the Starkville School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Starkville's School District's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, the Starkville School District complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the Starkville School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Starkville School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal

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control 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 school district's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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.

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 28, 2012

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2010, which collectively comprise Starkville School District's basic financial statements and have issued our report thereon dated March 28, 2012. 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 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 did not report any of the classroom supply funds from the 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 our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance

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of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follow:

Finding 1:

Surety Bonds –

Section 37-9-31 requires all principals be bonded in the amount of \$50,000. The District had six principals bonded at \$25,000 each.

The law also states that each bond should be on file at the Chancery Clerk's office. None of the Districts bonds could be located at the Chancery Clerk's office. Also the District could not produce copies of bonds.

Recommendation:

The District should comply with Section 37-9-31, Miss. Code Ann. (1972), which requires the district to ensure each Principal is bonded in the penal sum of Fifty Thousand Dollars (\$50,000) with sufficient surety.

Response:

The District will comply with Section 37-9-31, Miss. Code Ann. (1972).

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

The Starkville School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 28, 2012

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Starkville School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Noncompliance material to financial statements noted? No.
3. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported.

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Federal programs identified as major programs:
 - a. Title I Cluster
CFDA # 84.010
CFDA #84.389
 - b. SPED Cluster
CFDA # 84.027
CFDA # 84.173
CFDA # 84.391
CFDA # 84.392
 - c. ARRA - State Fiscal Stabilization Funds (SFSF) -
Education State Grants, Recovery Act
CFDA # 84.394

- d. Safe and Drug-Free School and Communities - National Grants
CFDA # 84.184A

- 8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
- 9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statements Findings

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

Material Weaknesses:

Finding 2010-1:

Weaknesses were noted surrounding the completeness and accuracy of the records regarding entries being made to the system after the fiscal year that actually pertained to the fiscal year. The system allows journal entries to be made after the close of the fiscal year that actually appear as if they were made during the fiscal year. After the year end cut-off date, this process makes it difficult to rely upon the general ledger because of the fiscal year totals changing constantly as a result of these entries. It was noted that even though the bank reconciliations were performed timely, several large journal entries were made after the fact that cause the reconciled bank balance to be significantly different from the book balance. We strongly recommend working with the software provider to devise a way that no changes can be made to the books after the designated cut-off date for that fiscal year. It is also recommended that if changes are required after the close of the books, they are handled through prior period adjustments. Audit adjustments were made to properly reflect the financial statements regarding this weakness.

Recommendation:

We recommend that the established cut-off date be strictly observed and that adjustments made after the cut-off date be properly reflected as prior period adjustments in the proper fiscal year.

Finding 2010-2:

We noted weaknesses in internal controls of food service operations. During our test work, it came to our attention that food service maintains a separate purchase order system and is also reconciling bank statements without any review from the central office. While no deviations were noted in the food service department, central office review and approval of the purchasing and bank account reconciliation process for the food service area would provide a better internal control structure for this area of operation.

Recommendation:

We recommend knowledgeable personnel from the central office provide adequate review and approval of the food service purchasing system and bank reconciliation process.

Finding 2010-3:

In previous years it was noted that the district maintained its capital assets in an excel spreadsheet, the district worked very hard to update the capital asset module in their software system during the 2010 year. It appears that several assets have been placed in different categories than was previously reported causing several large adjustments to be needed. We noted a need to update the description of each of the assets. We also identified a need to have better controls in place to keep up with construction in progress.

Recommendation:

Assets recorded in the system should have accurate descriptions, purchase amounts and proper depreciation class reflected. Monthly reconciliation of additions and deletions of capital assets should be performed. Designated personnel responsible for maintaining an accurate inventory of capital assets should be assigned at each location. In addition, a proper system for maintaining and monitoring the construction in progress account should be established. This should include tracking individual projects' cumulative amounts spent throughout the duration of the project, projected amounts to be spent to complete each project, and the source of the funds that will be used for completion.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

Starkville School District
401 Greensboro Street
Starkville, MS 39759
Dr. Beth Sewell - Superintendent
Rob Logan - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section 315(c) of OMB Circular A-133, the Starkville School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2010.

<u>Finding</u>	<u>Status</u>
2010-1	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Name: Rob Logan Title: Business Manager Phone Number: 662-662-0016</p> <p>b. Corrective Action Planned:</p> <p>The district will establish and strictly observe a cut-off date and any adjustments made after the cut-off date will be properly reflected as prior period adjustments in the proper fiscal year.</p> <p>c. Anticipated Completion Date:</p> <p>06-30-2012</p>
2010-2	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Name: Rob Logan Title: Business Manager Phone Number: 662-662-0016</p> <p>b. Corrective Action Planned:</p> <p>The district will insure knowledgeable personnel from the central office to provide adequate review and approval of the food service purchasing system and bank reconciliation process.</p>

- 2010-3
- c. Anticipated Completion Date:
06-30-2012
 - a. Name of Contact Person Responsible for Corrective Action
Name: Rob Logan
Title: Business Manager
Phone Number: 662-662-0016
 - b. Corrective Action Planned:

The district will ensure all assets recorded in the system will have accurate descriptions, purchase amounts and proper depreciation class reflected. Monthly reconciliation of additions and deletions of capital assets will be performed. Designated personnel responsible for maintaining an accurate inventory of capital assets will be assigned at each location. In addition, a proper system for maintaining and monitoring the construction in progress account will be established. This will include tracking individual projects' cumulative amounts spent through the duration of the project, projected amounts to be spent to complete each project, and the source of the funds that will be used for completion.
 - c. Anticipated Completion Date:
06-30-2012