



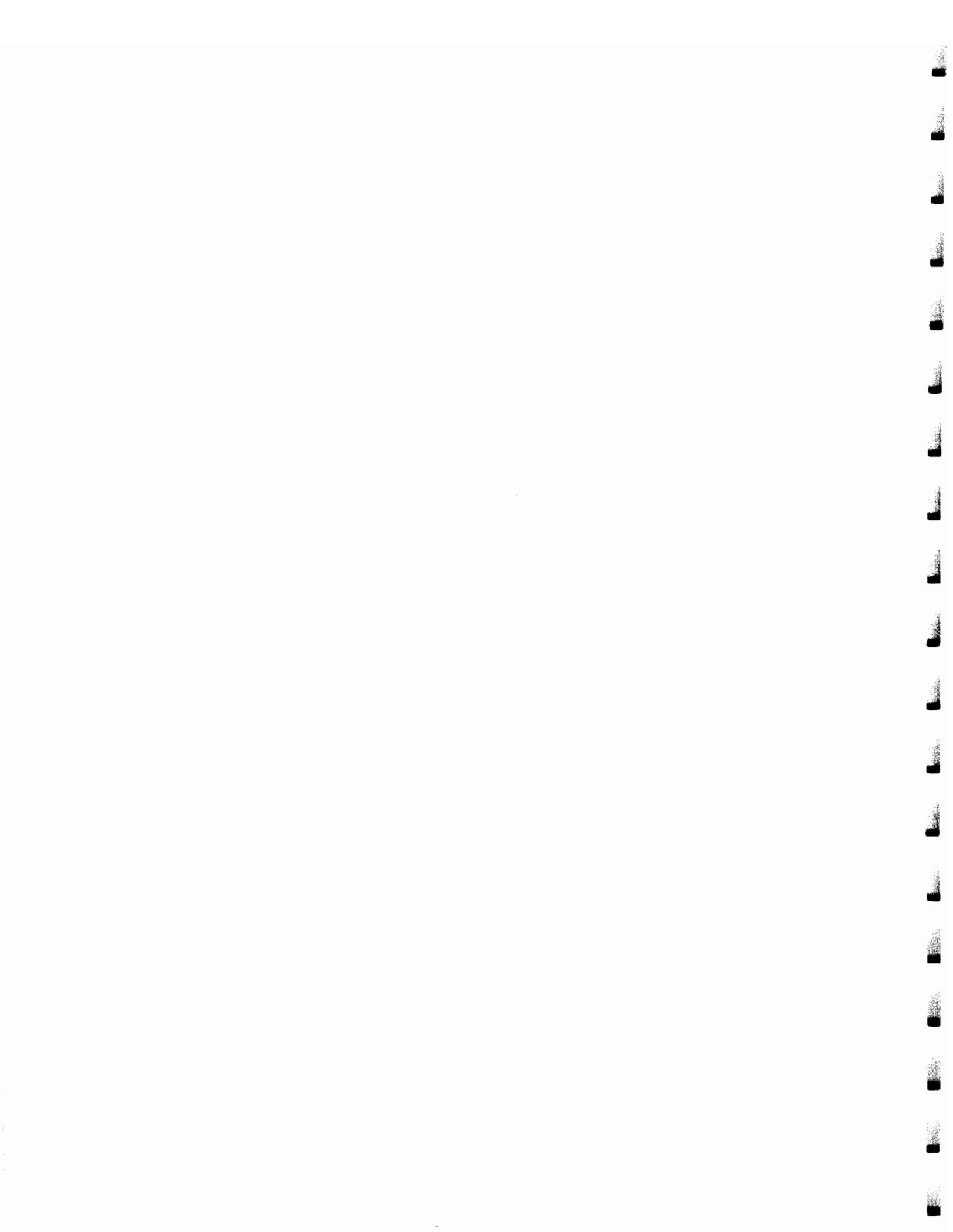
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MARION COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2005

Presented by:  
Dribben & Associates, Ltd.  
Albert F. Dribben, CPA  
P. O. Box 1411  
113 North Broadway Avenue  
McComb, MS 39649-1411



MARION COUNTY SCHOOL DISTRICT

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MARION COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

MARION COUNTY SCHOOL DISTRICT

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

October 19, 2005

Superintendent and School Board  
Marion County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2005, which collectively comprise the Marion County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility for the Marion County 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 opinion.

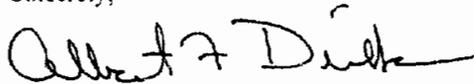
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Marion County School District, as of June 30, 2005, and the respective 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 October 19, 2005, on our consideration of the Marion County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 9 through 18 and the Budgetary Comparison Schedule and corresponding notes on pages 49 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County 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.

Sincerely,



Albert F. Dribben, CPA

*Dribben & Associates, Ltd.*

McComb, Mississippi

MARION COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARION COUNTY SCHOOL DISTRICT

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# MARION COUNTY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDING JUNE 30, 2005

The discussion and analysis of the Marion County School District's financial performance provides an overall narrative of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statement 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 of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34—*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented and is included in the discussion and analysis.

### FINANCIAL HIGHLIGHTS

- Total net assets increased \$462,317, which represented a 4% increase from fiscal year 2004. This increase is due primarily to conservative budgeting during the fiscal year in order to increase net assets to be used for the construction and renovation of school facilities.
- General revenues accounted for \$13,928,102 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,612,824, or 25% of total revenues.
- The District had \$18,078,609 in expenses; only \$4,612,824 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$13,928,102 were adequate to provide for these programs.
- Among major funds, the General Fund had \$12,935,681 in revenues and \$15,501,295 in expenditures. After net other financing sources of \$2,807,037, the General Fund's fund balance increased \$241,423 from the prior year. The increase is due primarily to conservative budgeting during the fiscal year in order to increase the fund balance to be used for the construction and renovation of school facilities.
- Capital assets, net of accumulated depreciation, increased by \$3,280,510. This increase is due mainly to additions to capital assets during the fiscal year consisting of energy efficiency improvements (air conditioners, windows, lighting, etc.) and the purchase of land and several items of furniture and equipment.
- Long-term debt increased by \$3,693,762. During the fiscal year, the district entered into an energy efficiency lease in the amount of \$3,799,444 and obtained a shortfall note in the amount of \$234,538. The district made principal payments on existing long-term debt in the amount of \$394,611 during the fiscal year.

### OVER VIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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 and other expenses 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 the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet

and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

**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.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and is included in this report as required supplementary.

#### **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 \$12,342,710 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$5,409,175 of the District's net assets reflects its investment in capital assets (e. g. land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$9,316,639 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school-based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for sixteenth section investment purposes. The unrestricted portion of the District's net assets is a negative amount of \$2,383,104. The District's unrestricted net assets are in the negative primarily because the District reclassified sixteenth section principal loans from long-term debt to advances in a prior fiscal year.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 3,834,830	3,257,624
Restricted assets	3,966,558	3,546,185
Capital assets, net	14,852,619	11,572,109
<b>Total assets</b>	<u>22,654,007</u>	<u>18,375,918</u>
Current liabilities	382,243	306,617
Long-term debt outstanding	9,929,054	6,235,292
<b>Total liabilities</b>	<u>10,311,297</u>	<u>6,541,909</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	5,409,175	5,571,109
Restricted	9,316,639	8,337,985
Unrestricted	(2,383,104)	(2,075,085)
<b>Total net assets</b>	<u>\$ 12,342,710</u>	<u>11,834,009</u>

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents and amounts due from other governments.
- Restricted assets increased from the previous fiscal year because the restricted assets for the current fiscal year include cash with fiscal agent in the Mississippi Adequate Education Program (MAEP) Fund. In addition, cash and cash equivalents in the sixteenth section principal fund increased from the prior fiscal year.
- Capital assets increased from the previous fiscal year due primarily to additions to land, construction in progress and furniture and equipment during the fiscal year.
- Long-term debt outstanding increased from the previous fiscal year. The district entered into an energy efficiency lease and obtained a shortfall note during the fiscal year.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school-based activities and capital improvements.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2005 were \$18,540,926. The total cost of all programs and services was \$18,078,609. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<b>Revenues:</b>		
Program revenues	\$ 4,612,824	4,491,522
General revenues	13,928,102	13,800,965
Special items	-	555,727
<b>Total revenues</b>	<u>18,540,926</u>	<u>18,848,214</u>
<b>Expenses:</b>		
Instruction	10,380,019	10,181,513
Support services	5,627,461	5,690,796
Non-instructional	1,410,578	1,321,525
Sixteenth section	58,219	283,836
Interest and other expenses on long-term liabilities	602,332	393,149
<b>Total expenses</b>	<u>18,078,609</u>	<u>17,870,819</u>
<b>Increase (Decrease) in net assets</b>	<u>\$ 462,317</u>	<u>977,395</u>

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues increased from the previous fiscal year due primarily to an increase in operation grants and contributions.
- Special items decreased from the previous fiscal year. The district received insurance loss recoveries in the previous fiscal year related to the fire at the West Marion Primary School.
- Interest and other expenses on long-term liabilities increased from the previous fiscal year due primarily to an increase in accrued interest payable related to the energy efficiency lease.

**Governmental activities.** The following table presents, for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 10,380,019	(7,993,363)	10,181,513	(7,805,772)
Support services	5,627,461	(4,699,213)	5,690,796	(4,743,468)
Non-instructional	1,410,578	(112,778)	1,321,525	(160,911)
Sixteenth section	58,219	(58,099)	283,836	(275,997)
Increase in long-term liabilities	602,332	(602,332)	393,149	(393,149)
<b>Total expenses</b>	<u>\$ 18,078,609</u>	<u>(13,465,785)</u>	<u>17,870,819</u>	<u>(13,379,297)</u>

- The net cost of governmental activities for fiscal year 2005 in the amount of \$13,465,785 was financed by general revenue, which is made up of primarily taxes of \$2,208,334 and state revenue of \$10,839,383.
- Investment earnings accounted for \$338,063 of funding.

## **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 fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$7,713,300. The net change in fund balance for the fiscal year was an increase of \$1,074,997 due primarily to conservative budgeting during the fiscal year in order to increase the fund balance to be used for the construction and renovation of the school facilities. The increase is also due to sixteenth section revenue generated during the fiscal year from leases, royalties and earnings on sixteenth section investments. \$194,465, or 3%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. Included in this portion of fund balance is a negative fund balance of \$1,897,494 in the General Fund which is the result of the reclassification of sixteenth section principal loans in a prior fiscal year from long-term debt to advances. The portion of the fund balance reported in the Special Revenue Funds will be used for school-based activities. The portion of the fund balance reported in the Capital Projects Fund will be used for the renovation and construction of school facilities. The remaining fund balance of \$7,518,835, or 97%, 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 advances, inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$241,423 due primarily to conservative budgeting during the fiscal year in order to increase the fund balance to be used for the construction and renovation of school facilities. The net change in fund balance for the Construction Fund for the fiscal year was an increase of \$418,536 due primarily to the transfer of funds from the General Fund to be used for the construction and renovation of school facilities. The net change in fund balance for the Sixteenth Section Principal Fund for the fiscal year was an increase of \$48,756. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$366,282 due primarily to the transfer of funds from the Sixteenth Section Principal Fund to the Sixteenth Section Interest Fund during the fiscal year. The increase is also due to the excess of revenue over expenditures in various funds.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from federal sources in the General Fund were decreased. The original budgeted amounts were overstated.

- Budgeted amounts for instruction expenditures in the General Fund were decreased. There were several teaching positions that were not filled during the fiscal year that were included in the original budget.
- Budgeted amounts for support services expenditures in the General Fund were decreased. The original budgeted amounts were overstated.
- Budgeted amounts for debt service principal expenditures in the General Fund were decreased to zero. The original budget included principal payments made on sixteenth section principal loans that were actually recorded as a reduction of a liability.
- Budgeted amounts for proceeds of loans in the General Fund were increased to reflect the proceeds received from a shortfall note.
- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfer of funds from the General Fund to the Construction Fund.

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 supplementary information.

Variances between the final amended budget and the actual amounts were due primarily to auditor's adjustments.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2005, the District's total capital assets, before depreciation, were \$21,909,913, including land, buildings building improvements, improvements other than buildings, mobile equipment, furniture and equipment and lease property under capital leases. This amount represents a gross increase of \$3,896,189 from the previous year due mainly to additions to capital assets consisting of energy efficiency improvements (air conditioners, windows, lighting, etc.) and the purchase of land and several items of furniture and equipment. Total depreciation expense for the year was \$620,371. Total accumulated depreciation as of June 30, 2005 was \$7,057,294, resulting in total net assets of \$14,852,619.

**Debt Administration.** At June 30, 2005, the District had \$9,929,054 in limited obligation bonds and other long-term debt outstanding, of which \$648,801 is due within one year. During the fiscal year, the District entered into an energy efficiency lease in the amount of \$3,799,444 and obtained a shortfall note in the amount of \$234,538. The district made principal payments on existing long-term debt in the amount of \$394,611 during the fiscal year.

#### **CURRENT ISSUES**

The Marion County 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 millage has increased from 33.89 in fiscal year 2004 to 38.03 in fiscal year 2005.

The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly from the previous fiscal year.

**CONTACT INFORMATION**

If you have questions about this report, contact the Superintendent's Office of the Marion County School District, 600 Broad Street, Columbia, MS 39429.

MARION COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

MARION COUNTY SCHOOL DISTRICT

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Marion County School District  
Statement of Net Assets  
June 30, 2005

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,374,388
Due from other governments	423,296
Inventories and prepaid items	37,146
Restricted assets	3,966,558
Capital assets, net	14,852,619
Total assets	<u>\$ 22,654,007</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	88,088
Interest payable on long-term debt	294,155
Long-term liabilities (due within one year)	
Capital related liabilities	529,292
Non-capital liabilities	119,509
Long-term liabilities (due beyond one year)	
Capital related liabilities	8,914,152
Non-capital liabilities	366,101
Total liabilities	<u>10,311,297</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	5,409,175
Restricted net assets	
Expendable:	
School based activities	910,569
Debt service	219,433
Capital improvements	1,218,536
Forestry improvements	145,596
Unemployment benefits	55,000
Non-expendable:	
Sixteenth section	6,767,505
Unrestricted	(2,383,104)
Total net assets	<u>\$ 12,342,710</u>

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

Marion County School District  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Governmental Activities
Governmental Activities:					
Instruction	\$ 10,380,019	434,167	1,952,489	(7,993,363)	
Support services	5,627,461	-	928,248	(4,699,213)	
Noninstructional	1,410,578	238,488	1,059,312	(112,778)	
Sixteenth section	58,219	120	-	(58,099)	
Interest and other expenses on long-term liabilities	602,332	-	-	(602,332)	
Total governmental activities	18,078,609	672,775	3,940,049	(13,465,785)	
General Revenues:					
Taxes:					
Property taxes - general purposes					1,979,107
Property taxes - debt service					229,227
Unrestricted grants and contributions:					
State					10,839,383
Federal					65,089
Unrestricted investment earnings					338,063
Sixteenth section sources					146,241
Other					330,992
Total general revenues					13,928,102
Change in Net Assets					462,317
Net Assets - Beginning					11,834,009
Prior period adjustments					46,384
Net Assets - Restricted					11,880,393
Net Assets - Ending					\$ 12,342,710

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

	Major Funds				Total Governmental Funds
	General Fund	Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 659,312	1,218,536	3,734,697	1,496,540	7,109,085
Cash with fiscal agents	-	-	-	126,701	126,701
Investments	-	-	105,160	-	105,160
Due from other governments	170,203	-	4,888	248,205	423,296
Due from other funds	231,075	-	-	-	231,075
Advances to other funds	-	-	2,926,403	-	2,926,403
Inventories and prepaid items	-	-	-	37,146	37,146
<b>Total assets</b>	<b>1,060,590</b>	<b>1,218,536</b>	<b>6,771,148</b>	<b>1,908,592</b>	<b>10,958,866</b>
<b>LIABILITIES &amp; FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	27,944	-	3,643	56,501	88,088
Due to other funds	3,737	-	-	227,338	231,075
Advances from other funds	2,926,403	-	-	-	2,926,403
<b>Total liabilities</b>	<b>2,958,084</b>	<b>-</b>	<b>3,643</b>	<b>283,839</b>	<b>3,245,566</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Advances	-	-	2,926,403	-	2,926,403
Inventory	-	-	-	37,146	37,146
Unemployment benefits	-	-	-	55,000	55,000
Forestry improvements	-	-	-	145,596	145,596
Debt service purposes	-	-	-	513,588	513,588
Permanent fund purposes	-	-	3,841,102	-	3,841,102
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General fund	(1,897,494)	-	-	-	(1,897,494)
Special revenue funds	-	-	-	873,423	873,423
Capital project funds	-	1,218,536	-	-	1,218,536
<b>Total fund balances</b>	<b>(1,897,494)</b>	<b>1,218,536</b>	<b>6,767,505</b>	<b>1,624,753</b>	<b>7,713,300</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 1,060,590</b>	<b>1,218,536</b>	<b>6,771,148</b>	<b>1,908,592</b>	<b>10,958,866</b>

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

Marion County School District  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 7,713,300
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital assets	21,909,914
Less accumulated depreciation	<u>(7,057,295)</u>
	14,852,619
Liabilities not due and payable in the current period are not reported in the funds, as follows	
Long-term liabilities	(9,929,054)
Accrued interest on debt	<u>(294,155)</u>
	(10,223,209)
Total Net Assets - Governmental Activities	<u><u>\$ 12,342,710</u></u>

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

Marion County School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
<b>Revenues:</b>					
Local sources	\$ 2,322,230	18,536	79,791	698,896	3,119,453
State sources	10,487,457	-	-	1,152,876	11,640,333
Federal sources	125,994	-	-	3,375,631	3,501,625
Sixteenth section sources	-	-	186,605	92,893	279,498
<b>Total revenues</b>	<b>12,935,681</b>	<b>18,536</b>	<b>266,396</b>	<b>5,320,296</b>	<b>18,540,909</b>
<b>Expenditures:</b>					
Instruction	7,295,351	-	-	2,653,645	9,948,996
Support services	4,202,066	-	-	1,267,586	5,469,652
Noninstructional services	-	-	-	1,342,542	1,342,542
Sixteenth section	-	-	-	58,219	58,219
Facilities acquisition and construction	3,876,843	-	-	-	3,876,843
Debt Service:					
Principal	-	-	-	394,611	394,611
Interest	127,035	-	-	282,135	409,170
<b>Total expenditures</b>	<b>15,501,295</b>			<b>5,998,738</b>	<b>21,500,033</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(2,565,614)</b>	<b>18,536</b>	<b>266,396</b>	<b>(678,442)</b>	<b>(2,959,124)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans	234,538	-	-	-	234,538
Proceeds of lease	3,799,444	-	-	-	3,799,444
Sales of other property	139	-	-	-	139
Transfers in	2,008,017	400,000	-	1,225,965	3,633,982
Transfers out	(3,233,101)	-	(217,640)	(181,241)	(3,633,982)
<b>Total Other Financing Sources (Uses):</b>	<b>2,807,037</b>	<b>400,000</b>	<b>(217,640)</b>	<b>1,044,724</b>	<b>4,034,121</b>
<b>Net Change in Fund Balances</b>	<b>241,423</b>	<b>418,536</b>	<b>48,756</b>	<b>366,282</b>	<b>1,074,997</b>
<b>Fund balances:</b>					
July 1, 2004, as previously reported	(2,138,917)	800,000	6,718,749	1,218,353	6,598,185
Prior period adjustment	-	-	-	46,310	46,310
July 1, 2004, as adjusted	(2,138,917)	800,000	6,718,749	1,264,663	6,644,495
Increase (Decrease) in reserve for inventory	-	-	-	(6,192)	(6,192)
<b>June 30, 2005</b>	<b>\$ (1,897,494)</b>	<b>1,218,536</b>	<b>6,767,505</b>	<b>1,624,753</b>	<b>7,713,300</b>

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

Marion County School District  
 Reconciliation of Statement of Revenues, Expenditures and Changes in  
 Fund Balances to Statement of Activities  
 For the Year Ended June 30, 2005

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - Governmental Funds	\$ 1,074,997
Amounts reported for governmental activities in the statement of activities are different because:	
1. Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets, as follows.	3,900,929
2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the Statement of Activities.	(620,371)
3. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas, in governmental funds, proceeds for the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Proceeds from the sale of capital assets	(139)
Gains of the sale of capital assets	17
4. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Activities	(4,033,982)
5. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	394,611
6. Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences decreases	(54,391)
Accrued interest on debt increases	(193,162)
7. A decrease in the reserve for inventory is reported as a direct decrease to the fund balance in the governmental funds but is a decrease in noninstructional service expenses in the Statement of Activities.	(6,192)
Change in net assets of governmental activities	<u>\$ 462,317</u>

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

Marion County School District  
Statement of Fiduciary Net Assets  
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 945,901
Total Assets	<u>\$ 945,901</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 862,322
Due to student clubs	83,579
Total Liabilities	<u>\$ 945,901</u>

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

MARION COUNTY SCHOOL DISTRICT

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## MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

### Notes to Financial Statements

#### (1) Summary of Significant Accounting Policies.

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

##### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board, which each member was elected by the citizens of each defined county district.

The Marion County School District Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five-member board, which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district.

##### B. Basis of Presentation.

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

##### *Government-wide Financial Statements:*

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by

## MARION COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2005

the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

#### *Fund Financial Statements:*

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

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

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

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

The school district reports the following major governmental funds:

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

Construction Fund - Construction Fund is a Capital Project Fund. Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

Sixteenth Section Principal Fund - This is a permanent fund. Permanent Funds are used to account for resources that are legally restricted to the extent that only

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

earnings, and not the principal, may be used for purposes that support the district's programs.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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.

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or budget requires collecting to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Reserved for permanent fund purposes - An account that represents the portion of the fund balance of the sixteenth section principal fund which is legally restricted for investment purposes.

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

Reserved for unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

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

Reserved for debt service - An Account that represents the fund balance for the Debt Service Fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority 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.

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee resigns or retires.

(2) Changes in Accounting Standards

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

Cash and Cash Equivalents.

The collateral for public entities' 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 Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,109,085 and \$945,901 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,374,388 and Restricted Assets \$3,966,558. The Restricted assets represents the cash balance of the sixteenth section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$8,960,768.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$126,701.

Investments.

Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments should be reported at fair value. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

Investments made by the school district that are included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered or for which the securities are held by the school district or its agent in the school district's name.

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Category 2 - Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the school district's name.

Category 3 - Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the school district's name.

Investment Type	Category			Carrying Amount	Market Value
	1	2	3		
G. N. M. A.	\$ 63,899		41,410	105,160	106,310
Total Investments	\$ 63,899	-	41,410	105,160	106,310

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General fund	\$ 231,075	
Other Governmental funds		231,075
Total Funds	\$ 231,075	231,075

B. Advances From/To Other Funds:

	Advances To	Advances From
Major funds:		
General fund	\$ 2,926,403	
Other major funds:		
Sixteenth section principal fund		2,926,403
Total funds	\$ 2,926,403	2,926,403

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 259,457	117,056	376,513
2007	235,988	106,678	342,666
2008	245,428	97,238	342,666
2009	191,751	87,421	279,172
2010	199,421	79,751	279,172
2011-2015	890,111	284,953	1,175,064
2016-2020	612,072	125,663	737,735
2021-2025	292,175	25,816	317,991
Total	<u>\$ 2,926,403</u>	<u>924,576</u>	<u>3,850,979</u>

[Note: The sixteenth section principal loans payable is not reflected on the statement of net assets because these funds were borrowed by the General Fund from the sixteenth section trust fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.]

C. Transfers In/Transfers Out.

	Transfers In	Transfers Out
Major funds:		
General fund	\$ 3,216,724	63,424
Other major funds:		
16th Section Principal	217,640	
Other governmental funds	199,618	3,570,558
Total funds	<u>\$ 3,633,982</u>	<u>3,633,982</u>

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

(5) Capital Assets.

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

	Balance 07/01/04	Additions	Retirements	Completed Construction	Adjustment	Balance 06/30/05
<u>Non-depreciable capital assets:</u>						
Land	\$ 22,763	29,531	-	-	-	52,294
Construction in progress	-	3,847,312	-	(3,847,312)	-	-
Total non-depreciable capital assets	22,763	3,876,843	-	(3,847,312)	-	52,294
<u>Depreciable capital assets:</u>						
Buildings	13,633,949	-	-	-	-	13,633,949
Building improvements	85,825	-	-	47,868	-	133,693
Improvements other than buildings	595,010	-	-	-	-	595,010
Mobile equipment	2,655,773	-	-	-	-	2,655,773
Furniture and equipment	1,020,405	24,086	(12,203)	-	7,463	1,039,751
Obligations under capital leases	-	-	-	3,799,444	-	3,799,444
Total depreciable capital assets	17,990,962	24,086	(12,203)	3,847,312	7,463	21,857,620
<u>Less accumulated depreciation for:</u>						
Buildings	(3,426,371)	(239,298)	-	-	-	(3,665,669)
Building improvements	(3,433)	(5,347)	-	-	-	(8,780)
Improvements other than buildings	(476,008)	-	-	-	-	(476,008)
Mobile equipment	(1,825,934)	(94,822)	-	-	-	(1,920,756)
Furniture and equipment	(709,870)	(128,926)	12,081	-	(7,389)	(834,104)
Obligations under capital leases	-	(151,978)	-	-	-	(151,978)
Total accumulated depreciation	(6,441,616)	(620,371)	12,081	-	(7,389)	(7,057,295)
Total depreciable capital assets, net	11,549,346	(596,285)	(122)	3,847,312	74	14,800,325
Governmental activities capital assets, net	\$ 11,572,109	3,280,557	(122)	-	74	14,852,619

Adjustments – to adjust furniture and equipment for an item previously listed as disposed but which was still in use.

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 401,688
Support services	144,211
Non-instruction	<u>74,472</u>
Total depreciation expense	<u>\$ 620,371</u>

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

(6) Long-term liabilities.

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

	<u>Balance</u>			<u>Balance</u>	<u>Amounts due</u>
	07/01/04	Additions	Retirements	06/30/05	within one
					year
A. Limited obligation bonds payable	\$ 4,455,000		(215,000)	4,240,000	220,000
B. Certificates of participation payable	895,000		(45,000)	850,000	45,000
C. Three-mill ten year notes payable	651,000		(97,000)	554,000	101,000
D. Short-fall note payable	117,315	234,538	(37,611)	314,242	114,368
E. Energy efficiency lease payable		3,799,444		3,799,444	163,292
F. Compensated absences payable	116,977	54,391		171,368	5,141
Total	<u>\$ 6,235,292</u>	<u>4,088,373</u>	<u>(394,611)</u>	<u>9,929,054</u>	<u>648,801</u>

A. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest</u>	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Amount</u>
	Rate	Date	Date	Issued	Outstanding
State Aid Capital Improvement	4.4-5.7%	3/1/1998	8/1/2018	<u>\$ 5,320,000</u>	<u>4,240,000</u>
Total				<u>\$ 5,320,000</u>	<u>4,240,000</u>

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 220,000	192,920	412,920
2007	230,000	180,095	410,095
2008	240,000	167,900	407,900
2009	250,000	156,760	406,760
2010	265,000	145,298	410,298
2011-2015	1,525,000	529,437	2,054,437
2016-2020	1,510,000	133,745	1,643,745
Total	<u>4,240,000</u>	<u>1,506,155</u>	<u>5,746,155</u>

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

B. Certificates of participation payable.

As more fully explained in Note 13, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust Certificates	4.93%	6/1/1998	6/1/2018	\$ 2,620,000	850,000
Total				<u>\$ 2,620,000</u>	<u>850,000</u>

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 45,000	41,905	86,905
2007	50,000	39,687	89,687
2008	50,000	37,213	87,213
2009	55,000	34,757	89,757
2010	60,000	32,045	92,045
2011-2015	340,000	113,636	453,636
2016-2020	250,000	24,896	274,896
Total	\$ 850,000	324,138	1,174,138

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

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill ten year note payable	4.15% - 4.7%	9/1/1999	9/1/2009	\$ 1,000,000	554,000
Total				\$ 1,000,000	554,000

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 101,000	23,132	124,132
2007	106,000	18,525	124,525
2008	111,000	13,587	124,587
2009	116,000	8,337	124,337
2010	120,000	2,820	122,820
Total	\$ 554,000	66,401	620,401

This debt will be retired from the Three Mill Note Retirement Fund.

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

D. Shortfall Note Payable.

Debt outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note payable	3.92%	8/11/2003	8/1/2006	\$ 117,315	79,704
	3.80%	9/1/2004	9/1/2007	234,538	234,538
Total				<u>\$ 351,853</u>	<u>\$ 314,242</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 114,368	12,037	126,405
2007	118,761	7,644	126,405
2008	81,113	3,082	84,195
Total	<u>\$ 314,242</u>	<u>22,763</u>	<u>337,005</u>

This debt will be paid out of the Shortfall Note Retirement Fund.

E. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 163,292	212,122	375,414
2007	185,987	191,262	377,249
2008	197,649	181,479	379,128
2009	209,983	171,082	381,065
2010	223,024	160,037	383,061
2011-2015	1,337,573	609,136	1,946,709
2016-2020	1,481,936	211,819	1,693,755
Total	<u>\$ 3,799,444</u>	<u>1,736,936</u>	<u>5,536,381</u>

An energy efficiency lease agreement dated July 20, 2004, was executed by and between the district, the lessee, and First Security Bank, the lessor.

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

The agreement authorized the borrowing of 3,799,444 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed fifteen (15) 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. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,011,735, \$1,001,044 and \$950,635, respectively, which equaled the required contributions for each year.

(8) 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

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2006	\$ 85,108
2007	84,146
2008	63,839
2009	60,744
2010	43,885
2011-2015	149,443
2016-2020	53,451
2021-2025	30,670
2026-2030	13,569
Total	<u>\$ 584,855</u>

(9) Prior Period Adjustments/exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanation(s)	Amount
1. Error in recording liabilities in prior year.	\$ 46,310
2. Error in recording capital assets in prior year.	7,463
3. Error in recording depreciation in prior year.	<u>(7,389)</u>
Total	<u>\$ 46,384</u>

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

Major funds:	Explanation(s):	Amount
General Fund	Error in recording liabilities in prior year.	\$ 46,310
		<u>\$ 46,310</u>

(10) 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 ultimate outcome or liability, if any, of the school district in respect to various proceedings. However, the school district's legal counsel believes that there are no lawsuits or threatened proceedings that will have a material adverse effect on the financial condition of the school district.

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

(11) Subsequent Events.

On July 18, 2005, the school board approved a shortfall note of \$138,255.

On September 1, 2005, a state of emergency was declared due to Hurricane Katrina and on September 18, the school district entered into an emergency contract for roofing and repairs of approximately \$95,000.

Per the Superintendent, assessments are being made of timber losses on sixteenth section lands. However, no estimate of amount of monetary loss can be made at this time.

(12) 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 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance, which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(13) Trust Certificates.

A trust agreement dated June 1, 1998, was executed by and between the school district and Trustmark National Bank of Jackson, Mississippi as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,620,000 to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease

MARION COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

MARION COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MARION COUNTY SCHOOL DISTRICT

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Marion County School District  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2005

Schedule 1-A

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
<b>REVENUES</b>					
Local sources	\$ 2,354,078	2,453,005	2,322,230	98,927	(130,775)
State sources	10,533,488	10,487,822	10,487,457	(45,666)	(365)
Federal sources	243,291	125,994	125,994	(117,297)	-
Total revenues	<u>13,130,857</u>	<u>13,066,821</u>	<u>12,935,681</u>	<u>(64,036)</u>	<u>(131,140)</u>
<b>EXPENDITURES</b>					
Instruction	7,567,288	7,355,351	7,295,351	211,937	60,000
Support services	5,287,502	4,249,934	4,202,066	1,037,568	47,868
Facilities acquisition and construction	50,000	29,531	3,876,843	20,469	(3,847,312)
Debt Service:					
Principal	222,613			222,613	-
Interest	95,035	127,035	127,035	(32,000)	-
Total expenditures	<u>13,222,438</u>	<u>11,761,851</u>	<u>15,501,295</u>	<u>1,460,587</u>	<u>(3,739,444)</u>
Excess (deficiency) of revenues over expenditures	<u>(91,581)</u>	<u>1,304,970</u>	<u>(2,565,614)</u>	<u>1,396,551</u>	<u>(3,870,584)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of loans		234,538	234,538	324,538	-
Proceeds of leases			3,799,444		3,799,444
Sale of other property		139	139	139	-
Transfers in	2,203,815	2,008,017	2,008,017	(195,798)	-
Transfers out	(2,915,309)	(3,235,101)	(3,235,101)	(319,792)	
Total other financing sources and uses	<u>(711,494)</u>	<u>(992,407)</u>	<u>2,807,037</u>	<u>(190,913)</u>	<u>3,799,444</u>
Net change in fund balances	<u>(803,075)</u>	<u>312,563</u>	<u>241,423</u>	<u>1,205,638</u>	<u>(71,140)</u>
Fund balances:					
July 1, 2004			<u>(2,138,917)</u>		
June 30, 2005			<u>\$ (1,897,494)</u>		

MARION COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents 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 the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund consistent with accounting principles generally accepted in the United States of America.

MARION COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

MARION COUNTY SCHOOL DISTRICT

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Marion County School District  
 Schedule of Expenditure of Federal Awards  
 For the Year Ended June 30, 2005

Schedule 2

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	\$ 79,415
Child nutrition cluster:		
School breakfast program	10.553	342,200
National school lunch program	10.555	737,002
Total child nutrition cluster		<u>1,079,202</u>
Total U. S. Department of Agriculture		<u>1,158,617</u>
<u>U. S. Department of Defense:</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	45,059
Total Other Federal Assistance		<u>45,059</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	1,033,034
Vocational education-basic grants to states	84.048	74,760
Safe and Drug-free Schools and Communities - state grants	84.186	22,688
Eisenhower professional development	84.281	256,456
Innovative education program strategies	84.298	22,296
Education technology state grants	84.318	20,334
Rural education achievement program	84.358	100,973
Title II-A Improving teacher quality state grants	84.367	36,300
Temporary assistance for needy families	93.558	146,413
Total		<u>1,713,254</u>
Special education cluster:		
Special education-grants to states	84.027	478,071
Special education-preschool grants	84.173	33,813
Total		<u>511,884</u>
Total Passed-through Mississippi Department of Education		<u>2,225,138</u>
Total U. S. Department of Education		<u>2,225,138</u>
<u>U. S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Cooperative agreements to support comprehensive school health programs to prevent the spread of HIV and other important health problems	93.938	15,667
Total U. S. Department of Health and Human Services		<u>15,667</u>
Total for All Federal Awards		<u>\$ 3,444,481</u>

NOTES TO SCHEDULE

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

Marion County School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,811,007	9,229,243	1,964,076	2,617,688
Other	7,689,026	719,753	159,830	6,809,443
Total	<u>21,500,033</u>	<u>9,948,996</u>	<u>2,123,906</u>	<u>9,427,131</u>
Total number of students	2,356			
Cost per student	<u>\$ 9,125</u>	<u>4,223</u>	<u>901</u>	<u>4,001</u>

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

**Instruction** - includes that activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000 functional codes)

**Administrative** - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

**Other** - includes all expenditure functions not included in Instruction or Administrative

MARION COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

MARION COUNTY SCHOOL DISTRICT

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

October 19, 2005

Superintendent and School Board  
Marion County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported to managements of the school district in a separate letter dated October 19, 2005, which is included in this report.

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

Sincerely,

Albert F. Dribben, CPA  
*Dribben & Associates, Ltd*  
McComb, Mississippi

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

October 19, 2005

Superintendent and School Board  
Marion County School District

Compliance

We have audited the compliance of the Marion County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Marion County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

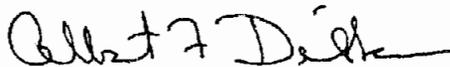
Internal Control Over Compliance

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

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

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

Sincerely,



Albert F. Dribben, CPA

*Dribben & Associates, Ltd.*

McComb, Mississippi

MARION COUNTY SCHOOL DISTRICT

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

MARION COUNTY SCHOOL DISTRICT

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

October 19, 2005

Superintendent and School Board  
Marion County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2005 which collectively comprise Marion County School District's basic financial statements and have issued our report thereon dated October 19, 2005. 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), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972) disclosed no instances of noncompliance. The district reported \$32,144 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

### Finding

During our review of activity fund expenditures, it was noted that one invoice was not paid within the 45-day statutory limit.

### Recommendation

The district should comply with Section 31-7-305, Miss. Code Ann. (1972), which requires that payments be made to the vendor no later than 45 days of receipt of an undisputed invoice and receipt, inspection and approval of the goods or services. The public body will be liable to the vendor, in addition to the amount of the invoice, interest at a rate of one and one-half percent per month or portion thereof on the unpaid balance from the expiration of the 45-day period.

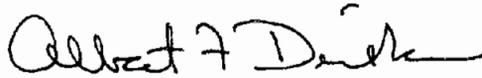
School District's Response

The staff of the Marion county School District works hard to comply with Section 31-7-305 Miss. Code Ann. (1972). The delay in paying this invoice is not typical of our financial operating procedures. In the future we will make a stronger effort to make sure the law is followed.

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

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

Sincerely,



Albert F. Dribben, CPA

*Dribben & Associates, Ltd.*

McComb, Mississippi

MARION COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARION COUNTY SCHOOL DISTRICT

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MARION COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements:                  | Unqualified |
| 2. | Material noncompliance relating to the financial statements?                  | No          |
| 3. | Internal control over financial reporting:                                    |             |
|    | a. Material weakness identified?  | No          |
|    | b. Reportable conditions identified that are not considered to be weaknesses? | No          |

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 identified?  | No          |
|     | b. Reportable condition identified that is not considered to be a material weakness?  | No          |
| 6.  | Any audit findings reported as required by Section __ 510(a) of Circular A-133?   | No          |
| 7.  | Federal program identified as a major program:<br><br>Title I – grants to local educational agencies    CFDA#: 84.010   |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?  | Yes         |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards, which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __ 315(b) of OMB Circular A-133? | No          |

Section 2: Financial Statement Findings

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

Section 3: Federal Awards Findings and Questioned Costs

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