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MARSHALL COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

MARSHALL COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2005, which collectively comprise the Marshall County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marshall 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 Marshall 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 21, 2005, on our consideration of the Marshall County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 41 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 inquires 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 Marshall County School District's basic financial statements. The 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. 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.

October 21, 2005
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in black ink and is positioned to the right of the date and location text.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Marshall County School District's financial performance provides an overall narrative review 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 statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2005 increased \$1,957,539, which represents a 20% increase from fiscal year 2004. Total net assets for 2004 increased \$12,712,432, which represents a 475% increase from fiscal year 2003. Of this, \$10,264,768 was due to a prior period adjustment.
- General revenues account for \$17,092,296 and \$16,283,243 in revenue, or 75% and 76% of all revenues for fiscal years 2005 and 2004 respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,692,856 or 25% of total revenues for 2005 and \$5,177,245 or 24% of total revenues for 2004.
- The District had \$20,551,392 and \$19,012,824 in expenses for fiscal years 2005 and 2004; only \$5,692,856 for 2005 and \$5,177,245 for 2004 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$17,092,296 for 2005 and \$16,283,243 for 2004 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,092,118 in revenues and \$14,008,765 in expenditures for 2005 and \$15,012,546 in revenues and \$12,924,201 in expenditures for 2004. The General Fund's fund balance increased \$1,461,756 from 2004 to 2005 and increased \$1,354,917 from 2003 to 2004.
- Capital assets, net of accumulated depreciation, decreased by \$549,849 for 2005 and increased by \$10,294,200 for 2004.
- Long-term debt decreased by \$894,116 for 2005 and \$753,567 for 2004. In addition, the liability for compensated absences decreased by \$3,207 for 2005 and \$1,118 for 2004.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15 - 16 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively.

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.

The basic governmental fund financial statements can be found on pages 17 - 20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 37 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and School Food Service Fund. This required supplementary information can be found on pages 39 - 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 43 - 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$11,994,270 as of June 30, 2005, and by \$10,036,731 as of June 30, 2004.

The District's financial position is a product of several financial transactions including the net result of activities, the 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 years ended June 30, 2005 and June 30, 2004.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 8,812,501	\$ 7,402,947
Capital assets, net	15,995,487	16,545,336
Total assets	<u>24,807,988</u>	<u>23,948,283</u>
Current liabilities	1,832,492	2,095,119
Long-term debt outstanding	10,981,226	11,816,433
Total liabilities	<u>12,813,718</u>	<u>13,911,552</u>
Net assets:		
Invested in capital assets, net of related debt	4,287,487	4,030,336
Restricted	3,549,313	3,401,005
Unrestricted	4,157,470	2,605,390
Total net assets	<u>\$ 11,994,270</u>	<u>\$ 10,036,731</u>

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

- The principal retirement of \$894,116 of long-term debt.
- The decrease in capital assets of \$549,849.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2005 and June 30, 2004 were \$22,785,152 and \$21,460,488 respectively. The total cost of all programs and services for 2005 was \$20,551,392 and \$19,012,824 for 2004. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and June 30, 2004.

	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues	\$ 5,692,856	\$ 5,177,245
General revenues	<u>17,092,296</u>	<u>16,283,243</u>
Total revenues	<u>22,785,152</u>	<u>21,460,488</u>
Expenses:		
Instruction	12,240,951	11,169,621
Support services	6,088,186	5,599,935
Non-instructional services	1,630,003	1,526,791
Interest and other charges related to long-term liabilities	<u>592,252</u>	<u>716,477</u>
Total expenses	<u>20,551,392</u>	<u>19,012,824</u>
Increase in net assets	<u>\$ 2,233,760</u>	<u>\$ 2,447,664</u>

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

	<u>2005</u>		<u>2004</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 12,240,951	\$ (9,622,067)	\$ 11,169,621	\$ (8,757,703)
Support services	6,088,186	(4,728,347)	5,599,935	(4,396,221)
Non-instructional services	1,630,003	84,130	1,526,791	34,822
Interest and other charges related to long-term liabilities	<u>592,252</u>	<u>(592,252)</u>	<u>716,477</u>	<u>(716,477)</u>
Total expenses	<u>\$ 20,551,392</u>	<u>\$ (14,858,536)</u>	<u>\$ 19,012,824</u>	<u>\$ (13,835,579)</u>

- Net cost of governmental activities (\$14,858,536 and \$13,835,579), was financed by general revenue, which is made up of primarily property taxes (\$3,174,616 for 2005 and \$3,106,363 for 2004) and state revenue (\$13,553,249 for 2005 and \$12,749,538 for 2004).
- Investment earnings accounted for \$119,945 for 2005 and \$262,993 for 2004 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 the year, its governmental funds reported a combined fund balance of \$7,890,339, an increase of \$1,602,198. \$7,791,350 or 99% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$98,989 or 1% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,461,756. The decrease in fund balance in the School Food Service Fund for the fiscal year was \$19,898. The fund balance of Other Governmental Funds showed an increase of \$160,340.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

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

Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$22,089,668, including school land, buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$92,805 from 2004 to 2005 and an increase of \$11,051,115 from 2003 to 2004. Total accumulated depreciation as of June 30, 2005 was \$6,094,181, and total depreciation expense for the year was \$597,661, resulting in total net capital assets of \$15,995,487.

Additional information of the District's capital assets can be found in Note 4 on page 31 of this report.

Debt Administration. At June 30, 2005, the District had \$11,813,226 in general obligation bonds and other long-term debt outstanding, of which \$832,000 is due within one year. In addition, the liability for compensated absences decreased by \$3,207 from the prior year.

The District does not have an underlying bond rating.

Additional information of the District's long-term debt can be found in Note 5 on pages 32 - 35 of this report.

CURRENT ISSUES

The Marshall County District is financially stable. The District is proud of its community support of the public schools.

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

The District actively pursues grant funding to supplant the local, state and federal revenue.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Marshall County School District, P. O. Box 38, Holly Springs, MS 38635.

FINANCIAL STATEMENTS

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 7,737,591
Due from other governments	859,275
Other receivables, net	1,890
Inventories and prepaid items	35,940
Restricted assets	177,805
Capital assets, net (Note 4)	<u>15,995,487</u>
Total Assets	<u>\$ 24,807,988</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 879,010
Deferred revenue	43,152
Interest payable on long-term liabilities	78,330
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	832,000
Non-capital related liabilities	
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	10,876,000
Non-capital related liabilities	<u>105,226</u>
Total Liabilities	<u>\$ 12,813,718</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 4,287,487
Restricted net assets:	
Expendable:	
School-based activities	907,721
Debt service	1,827,004
Capital improvements	751,539
Unemployment benefits	63,049
Unrestricted	<u>4,157,470</u>
Total Net Assets	<u>\$ 11,994,270</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 12,240,951	357,144	2,154,599	107,141	(9,622,067)
Support services	6,088,186		1,359,839		(4,728,347)
Non-instructional	1,630,003	277,551	1,436,582		84,130
Interest and other charges related to long-term liabilities	592,252				(592,252)
Total governmental activities	\$ 20,551,392	634,695	4,951,020	107,141	(14,858,536)
General Revenues:					
Taxes:					
					3,174,616
Unrestricted grants and contributions:					
					13,553,249
					164,434
					119,945
					80,052
					17,092,296
					2,233,760
					10,036,731
					(276,221)
					9,760,510
					\$ 11,994,270

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

**MARSHALL COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Major Funds			Total Governmental Funds
	General Fund	School Food Service	Other Governmental Funds	
ASSETS				
Cash and cash equivalents (Note 2)	\$ 4,304,183	609,501	2,823,907	7,737,591
Cash with fiscal agents			278	278
Investments			177,527	177,527
Due from other governments	388,283		470,992	859,275
Other receivables, net			1,890	1,890
Due from other funds (Note 3)	137,766		1,300	139,066
Inventories and prepaid items		35,940		35,940
Total Assets	<u>\$ 4,830,232</u>	<u>645,441</u>	<u>3,475,894</u>	<u>8,951,567</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 53,823	35,400	137,447	226,670
Due to other funds (Note 3)	513,714	101,853	175,839	791,406
Deferred revenue			43,152	43,152
Total Liabilities	<u>567,537</u>	<u>137,253</u>	<u>356,438</u>	<u>1,061,228</u>
Fund Balances:				
Reserved for:				
Unemployment benefits			63,049	63,049
Inventory		35,940		35,940
Unreserved:				
Undesignated, reported in:				
General fund	4,262,695			4,262,695
Special Revenue funds		472,248	399,533	871,781
Capital Projects funds			751,539	751,539
Debt Service funds			1,905,335	1,905,335
Total Fund Balances	<u>4,262,695</u>	<u>508,188</u>	<u>3,119,456</u>	<u>7,890,339</u>
Total Liabilities and Fund Balances	<u>\$ 4,830,232</u>	<u>645,441</u>	<u>3,475,894</u>	<u>8,951,567</u>

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

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Major Funds			Total Governmental Funds
	General Fund	School Food Service	Other Governmental Funds	
Revenues:				
Local sources	\$ 2,807,046	189,144	1,008,137	4,004,327
State sources	13,120,638	9,199	896,600	14,026,437
Federal sources	164,434	1,502,334	3,082,639	4,749,407
Total Revenues	16,092,118	1,700,677	4,987,376	22,780,171
Expenditures:				
Instruction	9,320,716		2,549,940	11,870,656
Support services	4,603,075	156,693	1,400,071	6,159,839
Noninstructional services	84,974	1,512,124	64,868	1,661,966
Debt service:				
Principal			894,116	894,116
Interest			599,202	599,202
Total Expenditures	14,008,765	1,668,817	5,508,197	21,185,779
Excess (Deficiency) of Revenues Over Expenditures	2,083,353	31,860	(520,821)	1,594,392
Other Financing Sources (Uses):				
Insurance loss recoveries	4,980			4,980
Sale of transportation equipment	2,359			2,359
Sale of other property	1,312			1,312
Operating transfers in	1,814,005		992,961	2,806,966
Operating transfers out	(2,444,281)	(50,000)	(312,685)	(2,806,966)
Other financing uses	(917)			(917)
Total Other Financing Sources (Uses)	(622,542)	(50,000)	680,276	7,734
Net Change in Fund Balances	1,460,811	(18,140)	159,455	1,602,126
Fund Balances:				
July 1, 2004	2,800,939	528,086	2,959,116	6,288,141
Prior period adjustments (Note 7)	945		885	1,830
July 1, 2004, as restated	2,801,884	528,086	2,960,001	6,289,971
Inc. (Dec.) in reserve for inventory		(1,758)		(1,758)
June 30, 2005	\$ 4,262,695	508,188	3,119,456	7,890,339

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

**MARSHALL 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**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 1,602,126
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$342,877 and the depreciation expense amounted to \$597,661. (Note 4)	(254,784)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	894,116
3. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$78,330 which is a decrease from last year.	7,867
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(17,014)
5. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences decreased to \$105,226.	3,207
6. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activities.	(1,758)
Change in Net Assets of Governmental Activities	\$ 2,233,760

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

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 24,685
Due from other funds (Note 3)	652,340
Total Assets	\$ <u>677,025</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 652,340
Due to student clubs	<u>24,685</u>
Total Liabilities	\$ <u>677,025</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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. Each member was elected by the citizens of each defined county 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 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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

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. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

School Food Service Fund - This is the school district's fund for accounting for the food service operation for the regular school year.

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.

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

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

FIDUCIARY FUNDS

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

D. Account Classifications

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are 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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

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 consists 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 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.

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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. 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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect 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:

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1: Summary of Significant Accounting Policies (Continued)

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 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.

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 only the compensated absence liability payable from expendable available financial resources.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 2: 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 \$7,737,591 and \$24,685, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$7,737,591. The bank balance was \$8,021,318.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, \$0 of the district's bank balance of \$8,021,318 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$278.

Investments

As of June 30, 2005, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturity (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury bills	less than 1	\$ <u>177,527</u>	AA
Total Investments		\$ <u><u>177,527</u></u>	

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 2: Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments (Continued)

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

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

Note 3: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General Fund	\$ 137,766	513,714
School Food Service		101,853
Other Governmental Funds	1,300	175,839
Fiduciary Funds	652,340	
Total	<u>\$ 791,406</u>	<u>791,406</u>

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 1,814,005	2,444,281
School Food Service		50,000
Other Governmental Funds	992,961	312,685
Total	<u>\$ 2,806,966</u>	<u>2,806,966</u>

The principal purpose of interfund transfers was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 4: Capital Assets

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

	Balance 7/1/2004	Additions	Retirements	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital assets</u>					
Land	\$ 291,218				291,218
Total non-depreciable capital assets	<u>291,218</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>291,218</u>
<u>Depreciable capital assets</u>					
Buildings	17,196,262			(163,374)	17,032,888
Building improvements	796,913				796,913
Improvements other than buildings	636,999				636,999
Mobile equipment	2,523,116	265,000	(168,190)		2,619,926
Furniture and equipment	552,355	77,877	(19,520)	101,012	711,724
Total depreciable capital assets	<u>21,705,645</u>	<u>342,877</u>	<u>(187,710)</u>	<u>(62,362)</u>	<u>21,798,450</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,136,612	336,414		171,443	3,644,469
Building improvements	95,629	31,876			127,505
Improvements other than buildings	25,480	25,480			50,960
Mobile equipment	1,742,017	157,968	(151,371)		1,748,614
Furniture and equipment	451,789	45,923	(19,325)	44,246	522,633
Total accumulated depreciation	<u>5,451,527</u>	<u>597,661</u>	<u>(170,696)</u>	<u>215,689</u>	<u>6,094,181</u>
Total depreciable capital assets, net	<u>16,254,118</u>	<u>(254,784)</u>	<u>(17,014)</u>	<u>(278,051)</u>	<u>15,704,269</u>
Governmental activities capital assets, net	<u>\$ 16,545,336</u>	<u>(254,784)</u>	<u>(17,014)</u>	<u>(278,051)</u>	<u>15,995,487</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 371,833
Support services	189,822
Non-instructional services	36,006
Total depreciation expense	<u>\$ 597,661</u>

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 4: Capital Assets (Continued)

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

Adjustments:

Adjustments were made to beginning capital assets to reflect the substantiated balance reported by the school district.

Note 5: Long-term Liabilities

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

	Balance <u>7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2005</u>	Amounts due within <u>one year</u>
A. General obligation bonds payable	\$ 7,145,000		425,000	6,720,000	440,000
B. Limited obligation bonds payable	4,685,000		245,000	4,440,000	255,000
C. Three mill note payable	685,000		137,000	548,000	137,000
D. Shortfall notes payable	87,116		87,116	-0-	
E. Compensated absences payable	108,433		3,207	105,226	
Total	<u>\$ 12,710,549</u>	<u>-0-</u>	<u>897,323</u>	<u>11,813,226</u>	<u>832,000</u>

A. General obligation bonds payable

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 5: Long-term Liabilities (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1999	Varies	2/1/1999	2/1/2019	\$ 8,000,000	\$ 6,345,000
General obligation bonds, Series 1987	5.00%	3/1/98	2/1/2018	<u>1,395,000</u>	<u>375,000</u>
Total				<u>\$ 9,395,000</u>	<u>\$ 6,720,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 440,000	302,873	742,873
2007	465,000	274,738	739,738
2008	490,000	244,920	734,920
2009	375,000	218,918	593,918
2010	395,000	199,935	594,935
2011-2015	2,285,000	721,521	3,006,521
2016-2018	<u>2,270,000</u>	<u>187,856</u>	<u>2,457,856</u>
Total	<u>\$ 6,720,000</u>	<u>2,150,761</u>	<u>8,870,761</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 7% of property assessments as of October 1, 2004. This debt will be retired from the \$8,000,000 Bond Issue Fund and the School Bond Debt Fund.

B. 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:

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 5: Long-term Liabilities (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement	Varies	12/1/1997	12/1/2017	\$ 5,545,000	\$ 4,440,000
Total				<u>\$ 5,545,000</u>	<u>\$ 4,440,000</u>

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 255,000	206,210	461,210
2007	270,000	193,760	463,760
2008	280,000	181,385	461,385
2009	295,000	168,448	463,448
2010	305,000	154,948	459,948
2011-2014	1,760,000	540,003	2,300,003
2015-2018	<u>1,275,000</u>	<u>97,625</u>	<u>1,372,625</u>
Total	<u>\$ 4,440,000</u>	<u>1,542,379</u>	<u>5,982,379</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 Fund.

C. Three mill notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mills notes payable	4.98%	4/23/99	4/23/09	\$ 1,370,000	\$ 548,000
Total				<u>\$ 1,370,000</u>	<u>\$ 548,000</u>

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 5: Long-term Liabilities (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2006	137,000	27,290	164,290
2007	137,000	20,468	157,468
2008	137,000	13,683	150,683
2009	137,000	6,823	143,823
Total \$	<u>548,000</u>	<u>68,264</u>	<u>616,264</u>

This debt will be retired from the Three Mill Ten Year Fund.

E. Compensated absences payable

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

Note 6: Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% 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 \$1,078,342, \$980,565, and \$919,405, respectively, which equaled the required contributions for each year.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 7: Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct a prior year error in recording an asset or liability	\$ <u>(276,221)</u>
Total	\$ <u><u>(276,221)</u></u>

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

<u>Major Fund</u>	<u>Explanation</u>	
General Fund	To correct a prior year error in recording an asset or liability	\$ 945
Other Governmental Funds	To correct a prior year error in recording an asset or liability	<u>885</u>
	Total	\$ <u><u>1,830</u></u>

Note 8: Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 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 that will pay the excess up to \$25,000,000. If total claims during a

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Note 8: Risk Management (Continued)

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 the excess losses incurred by the pool.

REQUIRED SUPPLEMENTARY INFORMATION

**MARSHALL COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,699,353	2,806,285	2,807,046	106,932	761
State sources	13,453,671	12,977,222	13,120,638	(476,449)	143,416
Federal sources	55,000	127,429	164,434	72,429	37,005
Total Revenues	<u>16,208,024</u>	<u>15,910,936</u>	<u>16,092,118</u>	<u>(297,088)</u>	<u>181,182</u>
Expenditures:					
Instruction	9,657,660	9,741,512	9,320,716	(83,852)	420,796
Support services	5,310,175	5,476,508	4,603,075	(166,333)	873,433
Noninstructional services	98,421	93,421	84,974	5,000	8,447
Total Expenditures	<u>15,066,256</u>	<u>15,311,441</u>	<u>14,008,765</u>	<u>(245,185)</u>	<u>1,302,676</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,141,768</u>	<u>599,495</u>	<u>2,083,353</u>	<u>(542,273)</u>	<u>1,483,858</u>
Other Financing Sources (Uses):					
Insurance loss recoveries		4,980	4,980	4,980	-0-
Sale of transportation equipment		2,870	2,359	2,870	(511)
Sale of other property		801	1,312	801	511
Operating transfers in	1,723,990	1,841,081	1,814,005	117,091	(27,076)
Operating transfers out	(2,248,505)	(2,498,967)	(2,444,281)	(250,462)	54,686
Other financing uses		(1,000)	(917)	(1,000)	83
Total Other Financing Sources (Uses)	<u>(524,515)</u>	<u>(650,235)</u>	<u>(622,542)</u>	<u>(125,720)</u>	<u>27,693</u>
Net Change in Fund Balances	<u>617,253</u>	<u>(50,740)</u>	<u>1,460,811</u>	<u>(667,993)</u>	<u>1,511,551</u>
Fund Balances:					
July 1, 2004	2,800,939	2,800,939	2,800,939	-0-	-0-
Prior period adjustments			945	-0-	945
July 1, 2004, as restated	<u>2,800,939</u>	<u>2,800,939</u>	<u>2,801,884</u>	<u>-0-</u>	<u>945</u>
June 30, 2005	<u>\$ 3,418,192</u>	<u>2,750,199</u>	<u>4,262,695</u>	<u>(667,993)</u>	<u>1,512,496</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SCHOOL FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 300,772	213,547	189,144	(87,225)	(24,403)
State sources	22,000	10,000	9,199	(12,000)	(801)
Federal sources	1,464,000	1,503,858	1,502,334	39,858	(1,524)
Total Revenues	<u>1,786,772</u>	<u>1,727,405</u>	<u>1,700,677</u>	<u>(59,367)</u>	<u>(26,728)</u>
Expenditures:					
Support services	246,760	228,760	156,693	18,000	72,067
Noninstructional services	1,480,012	1,517,012	1,512,124	(37,000)	4,888
Total Expenditures	<u>1,726,772</u>	<u>1,745,772</u>	<u>1,668,817</u>	<u>(19,000)</u>	<u>76,955</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>60,000</u>	<u>(18,367)</u>	<u>31,860</u>	<u>(78,367)</u>	<u>50,227</u>
Other Financing Sources (Uses):					
Operating transfers in	9,000			(9,000)	-0-
Operating transfers out	(50,000)	(50,000)	(50,000)	-0-	-0-
Total Other Financing Sources (Uses)	<u>(41,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>(9,000)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>19,000</u>	<u>(68,367)</u>	<u>(18,140)</u>	<u>(87,367)</u>	<u>50,227</u>
Fund Balances:					
July 1, 2004	528,086	528,086	528,086	-0-	-0-
Decrease in reserve for inventory			(1,758)	-0-	(1,758)
June 30, 2005	<u>\$ 547,086</u>	<u>459,719</u>	<u>508,188</u>	<u>(87,367)</u>	<u>48,469</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

Budgetary Comparison Schedule

Note 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.

Note 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 and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	84,475
Child nutrition cluster:		
School breakfast program	10.553	414,612
National school lunch program	10.555	1,020,702
Total		1,435,314
Total passed through Mississippi Department of Education		1,519,789
Total U.S. Department of Agriculture		1,519,789
U.S. Department of Defense		
Direct programs:		
Flood control projects	12.106	14,358
Total U.S. Department of Defense		14,358
U.S. Department of Education		
Passed through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,102,872
Vocational education - basic grants to states	84.048	56,085
Safe and drug-free schools and communities - state grants	84.186	40,213
Education for homeless children and youth	84.196	990
Innovative education program strategies	84.298	20,552
Education technology state grants	84.318	80,834
Comprehensive school reform demonstration	84.332	59,123
Reading first state grants	84.357	566,666
Rural education	84.358	110,623
English language acquisition grants	84.365	18,662
Improving teacher quality - state grants	84.367	332,624
Total		2,389,244

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Special education cluster:		
Special education - grants to states	84.027	682,014
Special education - preschool grants	84.173	<u>11,817</u>
Total		<u>693,831</u>
Total passed through Mississippi Department of Education		<u>3,083,075</u>
Total U.S. Department of Education		<u>3,083,075</u>
Total for All Federal Awards		<u><u>\$ 4,617,222</u></u>

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

**MARSHALL 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	\$ 14,987,134	10,421,921	1,596,347	2,968,866
Other	<u>6,198,645</u>	<u>1,447,775</u>	<u>487,215</u>	<u>4,263,655</u>
Total	\$ <u>21,185,779</u>	<u>11,869,696</u>	<u>2,083,562</u>	<u>7,232,521</u>
Total number of students	3,425			
Cost per student	\$ <u>6,186</u>	<u>3,466</u>	<u>608</u>	<u>2,112</u>

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

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

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

J.E. VANCE & COMPANY, P.A.

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

Superintendent and School Board
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 reportable 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 caused by error or fraud 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 misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

October 21, 2005
Tupelo, Mississippi

J. E. Vance + Company

J.E. VANCE & COMPANY, P.A.

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

Superintendent and School Board
Marshall County School District

Compliance

We have audited the compliance of the Marshall 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, Marshall 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 Marshall 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 caused by error or fraud 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.

October 21, 2005
Tupelo, Mississippi

J. E. Vance & Company

J.E. VANCE & COMPANY, P.A.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2005, which collectively comprise Marshall County School District's basic financial statements and have issued our report thereon dated October 21, 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 *Governmental 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 \$171,356 of classroom supply funds carried over from previous years.

The results of procedures to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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.

October 21, 2005
Tupelo, Mississippi



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MARSHALL 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 auditors' 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(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child Nutrition | |
| CFDA #10.553 | |
| CFDA #10.555 | |
| b. Cluster: Special Education | |
| CFDA #84.207 | |
| CFDA #84.173 | |

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditor's Results (Continued)

c. Reading First State Grants

CFDA #84.357

d. Improving Teacher Quality State Grants

CFDA #84.367

- | | |
|---|------------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000. |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | Yes |

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 Award Findings and Questioned Costs

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

Marshall County Public Schools

DON RANDOLPH
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Holly Springs, Mississippi 38635

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section ____315(b) of OMB Circular A-133, the Marshall County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005:

Finding

Status

04-1

Corrective action was taken.

Procedures have been established to prevent excess advances from being drawn down and supporting documentation showed the immediate need of the requested advance.