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MARION COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006

Presented by:
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MARION COUNTY SCHOOL DISTRICT

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FINANCIAL AUDIT REPORT

MARION COUNTY SCHOOL DISTRICT

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

November 9, 2006

Superintendent and School Board
Marion County School District

We have audited the accompanying 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, 2006, 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, 2006, 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.

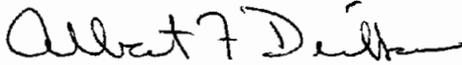
In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of the Marion County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 19 and the Budgetary Comparison Schedule and corresponding notes on pages 49 through 53 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.

Al Dribben, CPA
P.O. Box 1411 113 North Broadway McComb MS 39649
601-684-4819 Phone 601-684-4818 Fax 1-888-299-4829 Toll Free

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, 2006

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, 2006. 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 \$2,755,754, which represented a 22% increase from fiscal year 2005. This increase is due primarily to the receipt of approximately \$2,140,000 in federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina. The district also received approximately \$30,000 in FEMA/MEMA Disaster Relief funds and \$350,000 in insurance loss recoveries during the fiscal year.
- General revenues accounted for \$15,369,239 in revenue, or 68% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,113,453, or 32% of total revenues.
- The District had \$19,726,938 in expenses; only \$7,113,453 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$15,369,239 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,211,933 in revenues and \$11,775,024 in expenditures. This resulted in an excess of revenues over expenditures, before other financing sources and uses, in the General Fund of \$2,436,909. This increase is due primarily to the receipt of approximately \$2,140,000 in federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were reported in the Displaced Students Grant Funds and the Restart School Grant Fund, and federal sources were received to cover those expenditures. After net other financing uses of \$1,482,745, which included a transfer of funds to the Construction Fund to be used for the renovation and construction of school facilities, the net change in fund balance for the General Fund for the fiscal year was an increase of \$954,164.
- Capital assets, net of accumulated depreciation, decreased by \$252,527.
- Long-term debt decreased by \$512,619.

MARION COUNTY SCHOOL DISTRICT

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.

MARION COUNTY SCHOOL DISTRICT

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School District*. 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.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is provided in 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 \$15,098,464 as of June 30, 2006.

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. \$5,685,940 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. \$10,858,137 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 \$1,445,613. 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.

MARION COUNTY SCHOOL DISTRICT

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	June 30, 2006	June 30, 2005	Change
Current assets	\$ 5,934,782	3,834,830	54.76%
Restricted assets	4,320,556	3,966,558	8.92%
Capital assets, net	14,600,092	14,852,619	-1.70%
Total assets	<u>24,855,430</u>	<u>22,654,007</u>	9.72%
Current liabilities	340,531	382,243	-10.91%
Long-term debt outstanding	9,416,435	9,929,054	-5.16%
Total liabilities	<u>9,756,966</u>	<u>10,311,297</u>	-5.38%
Net assets:			
Invested in capital assets, net of related debt	5,685,940	5,409,175	5.12%
Restricted	10,858,137	9,316,639	16.55%
Unrestricted	<u>(1,445,613)</u>	<u>(2,383,104)</u>	-39.34%
Total net assets	<u>15,098,464</u>	<u>12,342,710</u>	22.33%

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 resulting primarily from the receipt of federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were covered by the federal sources received.
- Restricted net assets increased from the previous fiscal year primarily to the increase in the fund balance of the General Fund resulting from the receipt of federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were covered by the federal sources received.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in the fund balance of the General Fund resulting from the receipt of federal funds under the Displaced Student Grant and Restart Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were covered by federal sources received.

MARION COUNTY SCHOOL DISTRICT

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$22,482,692. The total cost of all programs and services was \$19,726,938. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	Change in Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program revenues:			
Charges for Services	\$ 687,278	\$ 672,775	2.16%
Operating Grants and Contributions	6,426,175	3,940,049	63.10%
General revenues:			
Property taxes	2,621,477	2,208,334	18.71%
Grants and contributions not restricted	11,658,561	10,904,472	6.92%
Other	1,089,201	815,296	33.60%
Total revenues	<u>\$ 22,482,692</u>	<u>\$ 18,540,926</u>	21.26%
Expenses:			
Instruction	11,108,818	10,380,019	7.02%
Support services	6,582,109	5,627,461	16.96%
Non-instructional	1,377,875	1,410,578	-2.32%
Sixteenth section	82,500	58,219	41.71%
Interest and other expenses on long-term liabilities	575,636	602,332	-4.43%
Total expenses	<u>19,726,938</u>	<u>18,078,609</u>	9.12%
Increase (Decrease) in net assets	<u>2,755,754</u>	<u>462,317</u>	496.07%
Net Assets, July 1	12,342,710	11,834,009	4.30%
Prior Period Adjustments		46,384	-100.00%
Net Assets, June 30	<u>15,098,464</u>	<u>12,342,710</u>	22.33%

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 operating grants and contributions. As a result of Hurricane Katrina, the District received approximately \$750,000 in Displaced Student Grant Funds and approximately \$1,390,000 in Restart School Grant Funds. The District also received approximately \$30,000 in FEMA/MEMA Disaster Relief Funds.
- General revenues increased from the previous fiscal year due primarily to an increase in ad valorem receipts, an increase in revenues received from unrestricted state grants and contributions, specifically Mississippi Adequate Education Program (MAEP) funds, and an increase in other general revenue related to insurance loss recoveries during the fiscal year resulting from damages caused by Hurricane Katrina.

MARION COUNTY SCHOOL DISTRICT

- Instruction and support services expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries during the fiscal year.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2006, 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.

	June 30, 2006		June 30, 2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 11,108,818	(6,965,053)	10,380,019	(7,993,363)
Support services	6,582,109	(4,948,666)	5,627,461	(4,699,213)
Non-instructional	1,377,875	(48,580)	1,410,578	(112,778)
Sixteenth section	82,500	(75,550)	58,219	(58,099)
Increase in long-term liabilities	575,636	(575,636)	602,332	(602,332)
Total expenses	\$ 19,726,938	(12,613,485)	18,078,609	(13,465,785)

- The net cost of governmental activities for fiscal year 2006 in the amount of \$12,613,485 was financed by general revenue, which is made up of primarily property taxes of \$2,621,477 and state revenue of \$11,617,999.
- Investment earnings accounted for \$335,482 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, 2006, its governmental funds reported a combined fund balance of \$10,184,664. The net change in fund balance for the fiscal year was an increase of \$2,490,784 due primarily to the receipt of federal funds under the Displaced Student Grant, Restart School Grant and FEMA/MEMA Disaster Relief Grant which resulted from Hurricane Katrina. \$2,579,007, or 25%, 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 \$943,330 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 \$7,605,657, or 75%, 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.

MARION COUNTY SCHOOL DISTRICT

The General Fund is the principal operating fund of the District. At fiscal year end, the General Fund had an excess of revenues over expenditures, before other financing sources and uses, of \$2,436,909. This increase is due primarily to the receipt of approximately \$2,140,000 in federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Funds and the Restart School Grant Fund and federal sources were received to cover those expenditures. After net other financing uses of \$1,482,745, which included a transfer of funds to the Construction Fund to be used for the renovation and construction of school facilities, the net change in fund balance for the General Fund for the fiscal year was an increase of \$954,164. The net change in fund balance for the Construction Fund for the fiscal year was an increase of \$1,069,649 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 \$77,259 due to the excess of revenue generated primarily from royalty income and earnings on investment over transfers to governmental funds during the fiscal year. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$389,712 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 and support services expenditures in the General Fund were decreased. During the fiscal year, the District received approximately \$750,000 of federal funds under the Displaced Student Grants and approximately \$1,390,000 of federal funds under the Restart School Grant. The district was allowed to reclassify a portion of instruction and support services expenditures from the General Fund to the Displaced Student Grant Funds and Restart School Grant Fund in order to reimburse the District for salary related expenditures incurred. In addition, the original budgeted amount for support services expenditures in the General Fund included the purchase of new school buses. However, the District did not purchase the buses until the next fiscal year.
- Budgeted amounts for debt service principal expenditures in the General Fund were decreased. 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 decreased to more accurately reflect the proceeds received from a shortfall note. The original budgeted amounts were overstated.
- Budgeted amounts for insurance loss recoveries in the General Fund were increased to reflect insurance proceeds resulting from damages caused by Hurricane Katrina.
- 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.
- Budgeted amounts for revenue and expenditures in the Displaced Student Grant Funds, Restart School Grant Fund and FEMA/MEMA Disaster Relief Grant Fund were increased during the fiscal year. Revenue and expenditures related to the grants were a result of Hurricane Katrina and were not included in the original budget.

MARION COUNTY SCHOOL DISTRICT

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets, before depreciation, were \$22,237,951, 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 \$328,037 from the previous year. During the fiscal year, the district purchased land, completed building improvements and purchased several items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$608,721. Total accumulated depreciation as of June 30, 2006 was \$7,637,859, resulting in total net capital assets of \$14,600,092.

	Capital Assets, Net of Depreciation	
	2006	2005
Land	\$ 179,394	52,294
Buildings	9,730,403	9,968,280
Building improvements	215,960	124,913
Improvements other than buildings	119,002	119,002
Mobile equipment	753,290	735,017
Furniture and equipment	106,555	205,647
Leased property under capital leases	3,495,488	3,647,466
Total	\$ 14,600,092	14,852,619

Debt Administration. At June 30, 2006, the District had \$9,416,435 in limited obligation bonds and other long-term debt outstanding, of which \$729,370 is due within one year. During the fiscal year, the District obtained a shortfall note in the amount of \$138,255. The district made principal payments on existing long-term debt in the amount of \$643,660 during the fiscal year.

	Outstanding Debt		Percentage Change
	2006	2005	
Limited obligation bonds payable	4,020,000	4,240,000	-5.2%
Certificates of participation payable	805,000	850,000	-5.3%
Three mill notes payable	453,000	554,000	-18.2%
Shortfall notes payable	338,129	314,242	7.6%
Energy efficiency leases payable	3,636,152	3,799,444	-4.3%
Compensated absences payable	164,154	171,368	-4.2%
	9,416,435	9,929,054	-5.2%

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 38.03 in fiscal year 2005 to 43.23 in fiscal year 2006.

MARION COUNTY SCHOOL DISTRICT

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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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MARION COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

MARION COUNTY SCHOOL DISTRICT

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Marion County School District
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,450,564
Due from other governments	1,466,492
Inventories and prepaid items	17,726
Restricted assets	4,320,556
Capital assets, not being depreciated	
Land	179,394
Capital assets, net of accumulated depreciation	
Buildings	9,730,403
Buildings Improvements	215,960
Improvements other than buildings	119,002
Mobile equipment	753,290
Furniture and equipment	106,555
Leased property under capital leases	3,495,488
Total assets	<u>\$ 24,855,430</u>
LIABILITIES	
Accounts payable and accrued liabilities	70,674
Interest payable on long-term debt	269,857
Long-term liabilities (due within one year)	
Capital related liabilities	571,987
Non-capital liabilities	167,383
Long-term liabilities (due beyond one year)	
Capital related liabilities	8,342,165
Non-capital liabilities	334,900
Total liabilities	<u>9,756,966</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,685,940
Restricted net assets	
Expendable:	
School based activities	1,251,878
Debt service	270,831
Capital improvements	2,288,185
Forestry improvements	142,479
Unemployment benefits	60,000
Non-expendable:	
Sixteenth section	6,844,764
Unrestricted	(1,445,613)
Total net assets	<u>\$ 15,098,464</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, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Governmental Activities	
				Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 11,108,818	444,489	3,699,276	-	(6,965,053)
Support services	6,582,109	-	1,633,443	-	(4,948,666)
Noninstructional	1,377,875	235,839	1,093,456	-	(48,580)
Sixteenth section	82,500	6,950	-	-	(75,550)
Interest and other expenses on long-term liabilities	575,636	-	-	-	(575,636)
Total governmental activities	19,726,938	687,278	6,426,175	-	(12,613,485)
General Revenues:					
Taxes:					
Property taxes - general purposes					2,368,545
Property taxes - debt services					252,932
Unrestricted grants and contributions:					
State					11,617,999
Federal					40,562
Unrestricted investment earnings					335,482
Sixteenth section sources					377,310
Other					376,409
Total general revenues					15,369,239
Change in Net Assets					2,755,754
Net Assets - Beginning					12,342,710
Net Assets - Ending					\$ 15,098,464

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

	Major Funds					Total Governmental Funds
	General Fund	Restart School Grant Fund	Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 294,057	-	2,288,185	4,115,977	1,868,322	8,566,541
Cash with fiscal agents	-	-	-	-	140,300	140,300
Investments	-	-	-	64,279	-	64,279
Due from other governments	250,241	589,020	-	-	627,231	1,466,492
Due from other funds	1,253,187	-	-	-	-	1,253,187
Advances to other funds	-	-	-	2,666,946	-	2,666,946
Inventories and prepaid items	-	-	-	-	17,726	17,726
Total assets	1,797,485	589,020	2,288,185	6,847,202	2,653,579	14,175,471
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	18,195	-	-	2,438	50,041	70,674
Due to other funds	55,674	589,020	-	-	608,493	1,253,187
Advances from other funds	2,666,946	-	-	-	-	2,666,946
Total liabilities	2,740,815	589,020		2,438	658,534	3,990,807
Fund balances:						
Reserved for:						
Advances	-	-	-	2,666,946	-	2,666,946
Inventory	-	-	-	-	17,726	17,726
Unemployment benefits	-	-	-	-	60,000	60,000
Forestry improvements	-	-	-	-	142,479	142,479
Debt service purposes	-	-	-	-	540,688	540,688
Permanent fund purposes	-	-	-	4,177,818	-	4,177,818
Unreserved:						
Undesignated, reported in:						
General fund	(943,330)	-	-	-	-	(943,330)
Special revenue funds	-	-	-	-	1,234,152	1,234,152
Capital project funds	-	-	2,288,185	-	-	2,288,185
Total fund balances	(943,330)	-	2,288,185	6,844,764	1,995,045	10,184,664
Total liabilities & fund balances	\$ 1,797,485	589,020	2,288,185	6,847,202	2,653,579	14,175,471

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, 2006

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 10,184,664
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital assets	22,237,951
Less accumulated depreciation	<u>(7,637,859)</u>
	14,600,092
Liabilities not due and payable in the current period are not reported in the funds, as follows	
Long-term liabilities	(9,416,435)
Accrued interest on debt	<u>(269,857)</u>
	(9,686,292)
Total Net Assets - Governmental Activities	<u>\$ 15,098,464</u>

Marion County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Restart School Grant Fund	Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 2,698,234	1,311	24,232	75,888	738,426	3,538,091
State sources	11,426,762	-	-	-	1,145,527	12,572,289
Federal sources	86,937	1,389,020	-	-	4,036,490	5,512,447
Sixteenth section sources	-	-	-	200,829	307,000	507,829
Total revenues	14,211,933	1,390,331	24,232	276,717	6,227,443	22,130,656
Expenditures:						
Instruction	6,392,203	925,792	-	-	3,374,965	10,692,960
Support services	4,694,340	463,228	190	-	1,363,491	6,521,249
Noninstructional services	-	-	-	-	1,338,932	1,338,932
Sixteenth section	-	-	-	-	82,500	82,500
Facilities acquisition and construction	196,011	-	31,500	-	-	227,511
Debt Service:	-	-	-	-	-	-
Principal	163,292	-	-	-	480,368	643,660
Interest	329,178	-	-	-	270,756	599,934
Total expenditures	11,775,024	1,389,020	31,690	-	6,911,012	20,106,746
Excess (deficiency) of revenues over expenditures	2,436,909	1,311	(7,458)	276,717	(683,569)	2,023,910
Other Financing Sources (Uses):						
Proceeds of loans	138,255	-	-	-	-	138,255
Insurance loss recoveries	350,000	-	-	-	-	350,000
Sales of other property	9,000	-	-	-	-	9,000
Other financing uses	-	-	-	-	(30,628)	(30,628)
Other financing sources	247	-	-	-	-	247
Transfers in	2,609,528	-	1,500,000	-	1,278,462	5,387,990
Transfers out	(4,589,775)	(1,311)	(422,893)	(199,458)	(174,553)	(5,387,990)
Total Other Financing Sources (Uses):	(1,482,745)	(1,311)	1,077,107	(199,458)	1,073,281	466,874
Net Change in Fund Balances	954,164	-	1,069,649	77,259	389,712	2,490,784
Fund balances:						
July 1, 2005, as previously reported	(1,897,494)	-	1,218,536	6,767,505	1,624,753	7,713,300
Increase (Decrease) in reserve for inventory	-	-	-	-	(19,420)	(19,420)
June 30, 2006	\$ (943,330)	-	2,288,185	6,844,764	1,995,045	10,184,664

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, 2006

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - Governmental Funds	\$ 2,490,784

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. | 363,405 |
| 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. | (608,721) |

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	(9,000)
Gains of the sale of capital assets	1,789

- | | |
|---|-----------|
| 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 | (138,255) |
| 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. | 643,660 |

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	7,214
Accrued interest on debt increases	24,298

- | | |
|--|----------|
| 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. | (19,420) |
|--|----------|

Change in net assets of governmental activities	<u>\$ 2,755,754</u>
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The notes to the financial statements are an integral part of this statement.

MARION COUNTY SCHOOL DISTRICT

Marion County School District
 Statement of Fiduciary Net Assets
 June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 994,686
Due from other governments	86
Total Assets	<u>\$ 994,772</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 913,914
Due to student clubs	80,858
Total Liabilities	<u>\$ 994,772</u>

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

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MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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 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. 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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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

Restart School Grant Fund - Restart School Grant Fund is a Special Revenue Fund that accounts for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes.

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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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

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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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.

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

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

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 term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 6 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 4 for details for interfund transactions, including receivables and payables at year-end.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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:

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.

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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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 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 Marion County School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is hold in the name of the State Treasurer under a Program established by the Mississippi State Legislature and is governed by Section Cash and Cash Equivalents.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.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 24-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificated of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; 9e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,566,541 and \$994,686 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$4,450,564 and Restricted Assets \$4,320,556. The Restricted assets represents the cash and investment balance of the sixteenth section Principal funds (Permanent Funds) and \$140,300 in the MAEP Retirement Fund which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$10,535,055.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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, 2006, none of the district’s bank balance of \$10,535,055 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 \$140,300.

Investments.

As of June 30, 2006, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (In Years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Government securities	1 to 5	31,141	n/a
U.S. Government securities	6 to 10	33,139	n/a

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 formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district did not have any investments to which this would apply.

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

(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
Governmental funds:		
General fund	\$ 1,253,187	55,674
Restart school grant fund		589,020
Other Governmental funds		608,493
Total	\$ 1,253,187	1,253,187

During the course of the school year, expenditures are paid in certain funds on a reimbursement basis causing the district to have to borrow from other funds in order to not create a deficit in any particular fund. The above interfund loans were made to cover year end expenditures.

B. Advances From/To Other Funds:

	Advances To	Advances From
Governmental funds:		
General fund	\$ 2,666,946	
Sixteenth section principal fund		2,666,946
Total	\$ 2,666,946	2,666,946

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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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
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	182,077	71,774	253,851
2012-2016	878,618	249,349	1,127,967
2017-2021	548,073	101,180	649,253
2022-2026	185,590	14,129	199,719
Total	\$ 2,666,946	807,520	3,474,466

C. Transfers In/Transfers Out.

	Transfers In	Transfers Out
Governmental funds:		
General fund	\$ 2,609,528	4,589,775
Restart school grant fund		1,311
Construction fund	\$ 1,500,000	422,893
16th section principal		199,458
Other governmental funds	1,278,462	174,553
Total	\$ 5,387,990	5,387,990

The above transfers were for the distribution of MAEP monies to various funds and for the transfer of sixteenth section principal and interest funds.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

(5) Capital Assets.

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

	Balance 07/01/05	Additions	Retirements	Completed Construction	Balance 06/30/06
<u>Non-depreciable capital assets:</u>					
Land	\$ 52,294	127,100	-		179,394
Construction in progress	-	100,411	-	(100,411)	-
Total non-depreciable capital assets	52,294	227,511	-	(100,411)	179,394
<u>Depreciable capital assets:</u>					
Buildings	13,633,949	-	-	-	13,633,949
Building improvements	133,693	-	-	100,411	234,104
Improvements other than buildings	595,010	-	-	-	595,010
Mobile equipment	2,655,773	125,159	(13,841)	-	2,767,091
Furniture and equipment	1,039,751	10,735	(21,527)	-	1,028,959
Obligations under capital leases	3,799,444	-	-	-	3,799,444
Total depreciable capital assets	21,857,620	135,894	(35,368)	100,411	22,058,557
<u>Less accumulated depreciation for:</u>					
Buildings	(3,665,669)	(237,877)	-	-	(3,903,546)
Building improvements	(8,780)	(9,364)	-	-	(18,144)
Improvements other than buildings	(476,008)	-	-	-	(476,008)
Mobile equipment	(1,920,756)	(102,935)	9,890	-	(2,013,801)
Furniture and equipment	(834,104)	(106,567)	18,267	-	(922,404)
Obligations under capital leases	(151,978)	(151,978)	-	-	(303,956)
Total accumulated depreciation	(7,057,295)	(608,721)	28,157	-	(7,637,859)
Total depreciable capital assets, net	14,800,325	(472,827)	(7,211)	100,411	14,420,698
Governmental activities capital assets, net	\$ 14,852,619	(245,316)	(7,211)	-	14,600,092

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 395,622
Support services	192,855
Non-instruction	20,244
Total depreciation expense	\$ 608,721

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:

	Balance 07/01/05	Additions	Retirements	Balance 06/30/06	Amounts due within one year
A. Limited obligation bonds payable	\$ 4,240,000		(220,000)	4,020,000	220,000
B. Certificates of participation payable	850,000		(45,000)	805,000	50,000
C. Three-mill ten year notes payable	554,000		(101,000)	453,000	106,000
D. Short-fall note payable	314,242	138,255	(114,368)	338,129	162,458
E. Energy efficiency lease payable	3,799,444		(163,292)	3,636,152	185,987
F. Compensated absences payable	171,368		(7,214)	164,154	4,925
Total	\$ 9,929,054	138,255	(650,874)	9,416,435	729,370

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement	4.4-5.7%	3/1/1998	8/1/2018	\$ 5,320,000	4,020,000
Total				\$ 5,320,000	4,020,000

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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

Year Ending June 30	Principal	Interest	Total
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	275,000	133,148	408,148
2012-2016	1,600,000	457,700	2,057,700
2017-2020	1,160,000	72,335	1,232,335
Total	4,020,000	1,313,236	5,333,236

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	805,000
			Total	<u>\$ 2,620,000</u>	<u>805,000</u>

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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

Year Ending June 30	Principal	Interest	Total
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	60,000	29,087	89,087
2012-2016	360,000	96,874	456,874
2017-2020	170,000	12,571	182,571
Total	<u>\$ 805,000</u>	<u>282,234</u>	<u>1,087,234</u>

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	453,000
			Total	<u>\$ 1,000,000</u>	<u>453,000</u>

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

Year Ending June 30	Principal	Interest	Total
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	<u>\$ 453,000</u>	<u>43,269</u>	<u>496,269</u>

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, 2006

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	40,618
	3.80%	9/1/2004	9/1/2007	234,538	159,256
	5.37%	9/1/2005	9/1/2008	138,255	138,255
Total				\$ 490,108	338,129

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 162,457	15,068	177,525
2008	127,156	8,160	135,316
2009	48,516	2,605	51,121
Total	\$ 338,129	25,833	363,962

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
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	236,758	148,306	385,064
2012-2016	1,418,976	538,779	1,957,755
2017-2020	1,163,775	133,869	1,297,644
Total	\$ 3,636,152	1,524,814	5,160,966

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, 2006

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 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.

(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 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, 2006, 2005 and 2004 were \$1,162,839, \$1,011,735 and \$1,001,044, 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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Sixteenth Section Leases	
Year Ending	
<u>June 30</u>	<u>Amount</u>
2007	\$ 93,241
2008	74,183
2009	61,735
2010	51,324
2011	42,858
2012-2016	122,682
2017-2021	49,524
2022-2026	38,886
2027-2030	<u>21,942</u>
Total	<u>\$ 556,375</u>

(9) 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 to the school district.

(10) Subsequent Events.

On July 3, 2006, the board approved purchase of 20 school buses.

(11) Risk Management.

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2006

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 119 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 \$500,000. For a claim exceeding \$500,000, 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.

(12) 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 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, 2006

Schedule 1-A

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ 2,638,131	2,698,234	2,698,234	60,103	-
State sources	11,432,735	11,426,762	11,426,762	(5,973)	-
Federal sources	147,000	86,937	86,937	(60,063)	-
Total revenues	14,217,866	14,211,933	14,211,933	(5,933)	-
EXPENDITURES					
Instruction	8,178,409	6,392,203	6,392,203	1,786,206	-
Support services	5,441,231	4,762,501	4,694,340	678,730	68,161
Facilities acquisition and construction	-	127,850	196,011	(127,850)	(68,161)
Debt Service:					
Principal	329,178	163,292	163,292	165,886	-
Interest	422,749	329,178	329,178	93,571	-
Total expenditures	14,371,567	11,775,024	11,775,024	2,596,543	-
Excess (deficiency) of revenues over expenditures	(153,701)	2,436,909	2,436,909	2,590,610	-
OTHER FINANCING SOURCES (USES)					
Proceeds of loans	788,255	138,502	138,255	(649,753)	(247)
Proceeds of leases	-	350,000	350,000	350,000	-
Sale of transportation equipment	5,000	-	-	(5,000)	-
Sale of other property	5,000	9,000	9,000	4,000	-
Transfers in	2,321,196	2,609,528	2,609,528	288,332	-
Transfers out	(3,122,516)	(4,589,775)	(4,589,775)	(1,467,259)	-
Other financing sources	-	-	247	-	247
Total other financing sources and uses	(3,065)	(1,482,745)	(1,482,745)	(1,479,680)	-
Net change in fund balances	(156,766)	954,164	954,164	1,110,930	-
Fund balances:					
July 1, 2005			(1,897,494)		
June 30, 2006			\$ (943,330)		

Marion County School District
 Budgetary Comparison Schedule
 Restart School Grant Fund
 For the Year Ended June 30, 2006

Schedule 1-B

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	REVENUES				
Local sources	\$ -	1,311	1,311	1,311	-
Federal sources	-	1,389,020	1,389,020	1,389,020	-
Total revenues	-	1,390,331	1,390,331	1,390,331	-
EXPENDITURES					
Instruction	-	925,792	925,792	(925,792)	-
Support services	-	463,228	463,228	(463,228)	-
Total expenditures	-	1,389,020	1,389,020	(1,389,020)	-
Excess (deficiency) of revenues over expenditures	-	1,311	1,311	1,311	-
OTHER FINANCING SOURCES (USES)					
Transfers out	-	(1,311)	(1,311)	(1,311)	-
Total other financing sources and uses	-	(1,311)	(1,311)	(1,311)	-
Net change in fund balances	-	-	-	-	-
Fund balances:					
July 1, 2005			-		
June 30, 2006			\$ -		

MARION COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

MARION COUNTY SCHOOL DISTRICT

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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, 2006

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 donation	10.550	\$ 107,885
Child nutrition cluster:		
School breakfast program	10.553	321,258
National school lunch program	10.555	752,065
Total child nutrition cluster		1,073,323
Total U. S. Department of Agriculture		1,181,208
<u>U. S. Department of Defense:</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	46,334
Total Other Federal Assistance		46,334
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	917,141
Vocational Education - basic state to grants	84.048	54,075
Safe and drug-free schools and communities - state grants	84.186	32,573
Innovative education program strategies	84.298	14,275
Education technology state grants	84.318	46,130
Rural education achievement program	84.358	72,238
Title II-A Improving teacher quality state grants	84.367	280,284
Hurricane educate recovery	84.938	2,146,249
Total		3,562,965
Special education cluster:		
Special education-grants to states	84.027	632,680
Special education-preschool grants	84.173	39,731
Total		672,411
Total Passed-through Mississippi Department of Education		4,235,376
Total U. S. Department of Education		4,235,376
<u>U. S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Temporary assistance for needy families	93.558	62,460
Medical assistance program	93.778	40,562
Total U. S. Department of Health and Human Services		103,022
<u>U.S. Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency:		
Disaster grants - public assistance (presidential declared disasters)	97.036	30,038
Total U.S. Department of Homeland Security		30,038
Total for All Federal Awards		\$ 5,595,978

NOTES TO SCHEDULE

This schedule was prepared using the same basis of accounting and the same 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, 2006

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administrative	School Administration	Other
Salaries and fringe benefits	\$ 14,634,663	10,825,025	823,563	1,185,097	1,800,978
Other	5,472,083	1,230,334	138,659	29,950	4,073,140
Total	20,106,746	12,055,359	962,222	1,215,047	5,874,118
Total number of students	2,377				
Cost per student	\$ 8,459	5,072	405	511	2,471

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)

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

School Administration - includes expenditures for the following function: School Administration (2400s)

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

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*

November 9, 2006

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, 2006, and have issued our report thereon dated November 9, 2006. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-01 and 06-02.

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. 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

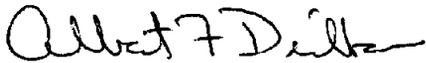
Al Dribben, CPA
P.O. Box 1411 113 North Broadway McComb MS 39649
601-684-4819 Phone 601-684-4818 Fax 1-888-299-4829 Toll Free

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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated November 9, 2006, 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

November 9, 2006

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, 2006. 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, 2006.

Internal Control Over Compliance

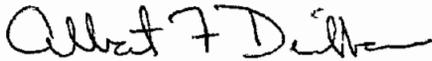
The management of the Marion County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's 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.

Al Dribben, CPA
P.O. Box 1411 113 North Broadway McComb MS 39649
601-684-4819 Phone 601-684-4818 Fax 1-888-299-4829 Toll Free

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 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 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.

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**

November 9, 2006

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, 2006 which collectively comprise Marion County School District's basic financial statements and have issued our report thereon dated November 9, 2006. 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 \$48,964 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 instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response is as follows:

Finding

As reported in previous years, 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.

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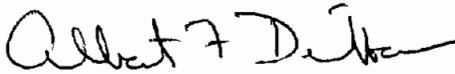
School District's Response

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 invoice(s) 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, 2006

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? | Yes |

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: | |
| | Child nutrition cluster: | |
| | School breakfast program | CFDA#: 10.553 |
| | National school lunch program | CFDA#: 10.555 |
| | Special Education cluster: | |
| | Special education - grants to states | CFDA#: 84.027 |
| | Special education - preschool grants | CFDA#: 84.173 |
| | Hurricane education recovery | CFDA#: 84.938 |
| 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 |

MARION COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

Reportable conditions not considered to be material weaknesses.

06-01. Finding

In our tests of activity and club fund revenues, we noted numerous instances of deposits not being made timely.

Recommendation

We recommend that the school district adopt policies and procedures to increase internal controls over the receipt of activity and club fund monies; and at a minimum, the internal control procedures of the *Financial Accountant Manual for Mississippi Public School Districts* should be considered.

06-02. Finding

In our tests of expenditures, we noted several instances of invoices dated prior to the purchase order date.

Recommendation

We recommend that the school district adopt policies and procedures to increase internal controls over disbursements; and at a minimum, the internal control procedures of the *Financial Accounting Manual for Mississippi Public School Districts* should be considered.

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.

MARION COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

MARION COUNTY SCHOOL DISTRICT

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MARION COUNTY SCHOOL DISTRICT

600 Broad Street
Columbia, MS 39429
Telephone: (601)736-7193
Fax: (601)736-6274

MARION COUNTY SCHOOLS

May 29, 2007

Dribben & Associates, Ltd.
P. O. Box 1411
McComb, MS 39649-1411

Gentlemen:

Marion County Schools respectfully submits the following corrective action plan for the year ended June 30, 2006.

The findings from Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

SECTION 2: FINANCIAL STATEMENT FINDINGS

06-01 Corrective Action Planned:

- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Donna Martin, Business Manager, 601-736-7193
- b. Corrective Action Planned:
Donna Martin will meet with all concerned parties that receipt money and make sure they understand the correct procedures for all receipts whether the money is for the activity funds or club funds.
- c. Anticipated Completion Date:
Has been addressed and corrected in May 2007.

06-02 Corrective Action Planned

- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Diane Snell, Purchasing Agent/Accounts Payable Clerk, 601-736-7193
- b. Corrective Action Planned:
Diane Snell has meet with all concerned parties that make purchases to make sure they all understand that a Purchased Order is required before any purchases can be made.
- c. Anticipated Completion Date:
This finding was corrected in the fall of 2006.

Sincerely,


Craig L. Robbins
Superintendent

STUDENTS FIRST

MARION COUNTY SCHOOL DISTRICT

May 29, 2007

Page 2

State Finding

School District 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 invoice(s) is not typical of our financial operating procedures. In the future we will make a stronger effort to make sure the law is followed.

