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MARSHALL COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

MARSHALL COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2006

	<u>Page</u>
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	4
Management's Discussion and Analysis	6
Financial Statements	14
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities	20
Statement of Fiduciary Net Assets	21
Notes to Financial Statements	22
Required Supplementary Information	38
Budgetary Comparison Schedule for the General Fund	39
Budgetary Comparison Schedule for the School Food Service Fund	40
Notes to the Required Supplementary Information	41

**MARSHALL COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS (CONTINUED)
JUNE 30, 2006**

	<u>Page</u>
Supplemental Information	42
Schedule of Expenditures of Federal Awards	43
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	45
Reports on Compliance and Internal Control	46
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	49
Independent Auditors' Report on Compliance with State Laws and Regulations	51
Schedule of Findings and Questioned Costs	53
Auditee's Corrective Action Plan	56

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INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Marshall County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2006, which collectively comprise the Marshall County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marshall County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall 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 2, 2006, on our consideration of the Marshall County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marshall County School District's basic financial statements. The 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.

November 2, 2006
Tupelo, Mississippi

A handwritten signature in black ink that reads "J. E. Vance & Company". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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

FINANCIAL HIGHLIGHTS

- Total net assets for 2006 increased \$2,481,250, which represents a 21% increase from fiscal year 2005. Total net assets for 2005 increased \$1,957,539, which represents a 20% increase from fiscal year 2004.
- General revenues account for \$18,847,239 and \$17,092,296 in revenue, or 77% and 75% of all revenues for fiscal years 2006 and 2005 respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,765,551 or 23% of total revenues for 2006 and \$5,692,856 or 25% of total revenues for 2005.
- The District had \$22,131,540 and \$20,551,392 in expenses for fiscal years 2006 and 2005; only \$5,765,551 for 2006 and \$5,692,856 for 2005 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,847,239 for 2006 and \$17,092,296 for 2005 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,256,844 in revenues and \$15,410,277 in expenditures for 2006 and \$16,092,118 in revenues and \$14,008,765 in expenditures for 2005. The General Fund's fund balance decreased \$128,926 from 2005 to 2006 and increased \$1,461,756 from 2004 to 2005.
- Capital assets, net of accumulated depreciation, increased by \$156,328 for 2006 and decreased by \$549,849 for 2005.
- Long-term debt decreased by \$1,243,000 for 2006 and \$894,116 for 2005. In addition, the liability for compensated absences increased by \$5,368 for 2006 and decreased \$3,207 for 2005.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

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

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

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and School Food Service Fund. This required supplementary information can be found on pages 38 - 41 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$14,475,520 as of June 30, 2006, and by \$11,994,270 as of June 30, 2005.

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

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

	2006	2005
Current assets	\$ 9,852,024	\$ 8,812,501
Capital assets, net	<u>16,151,815</u>	<u>15,995,487</u>
Total assets	<u>26,003,839</u>	<u>24,807,988</u>
Current liabilities	1,687,725	1,832,492
Long-term debt outstanding	<u>9,840,594</u>	<u>10,981,226</u>
Total liabilities	<u>11,528,319</u>	<u>12,813,718</u>
Net assets:		
Invested in capital assets, net of related debt	5,686,815	4,287,487
Restricted	4,782,460	3,549,313
Unrestricted	<u>4,006,245</u>	<u>4,157,470</u>
Total net assets	<u>\$ 14,475,520</u>	<u>\$ 11,994,270</u>

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

- The principal retirement of \$1,243,000 of long-term debt.
- The increase in capital assets of \$156,328.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2006 and June 30, 2005 were \$24,612,790 and \$22,785,152, respectively. The total cost of all programs and services for 2006 was \$22,131,540 and \$20,551,392 for 2005. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and June 30, 2005.

	Change in Net Assets		Percentage Change
	2006	2005	
Revenues:			
Program revenues:			
Charges for services	\$ 741,913	\$ 634,695	16.89%
Operating grants and contributions	5,023,638	5,058,161	-0.68%
General revenues			
Property taxes	3,304,279	3,174,616	4.08%
Grants and contributions not restricted	15,491,908	13,717,683	12.93%
Other	51,052	199,997	-74.47%
Total revenues	<u>24,612,790</u>	<u>22,785,152</u>	8.02%
Expenses:			
Instruction	13,173,585	12,240,951	7.62%
Support services	6,707,205	6,088,186	10.17%
Non-instructional services	1,710,752	1,630,003	4.95%
Interest and other charges related to long-term liabilities	<u>539,998</u>	<u>592,252</u>	-8.82%
Total expenses	<u>22,131,540</u>	<u>20,551,392</u>	7.69%
Increase in net assets	\$ <u>2,481,250</u>	\$ <u>2,233,760</u>	11.08%

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

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 13,173,585	\$ (10,538,271)	\$ 12,240,951	\$ (9,622,067)
Support services	6,707,205	(5,231,232)	6,088,186	(4,728,347)
Non-instructional services	1,710,752	(56,488)	1,630,003	84,130
Interest and other charges related to long-term liabilities	<u>539,998</u>	<u>(539,998)</u>	<u>592,252</u>	<u>(592,252)</u>
Total expenses	\$ <u>22,131,540</u>	\$ <u>(16,365,989)</u>	\$ <u>20,551,392</u>	\$ <u>(14,858,536)</u>

- Net cost of governmental activities (\$16,365,989 and \$14,858,536), was financed by general revenue, which is made up of primarily property taxes (\$3,304,279 for 2006 and \$3,174,616 for 2005) and state revenue (\$15,178,633 for 2006 and \$13,553,249 for 2005).
- Investment earnings accounted for \$148,134 for 2006 and \$119,945 for 2005 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,966,525, an increase of \$1,076,186. \$4,684,466 or 52% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$4,282,059 or 48% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$127,626. The decrease in fund balance in the School Food Service Fund for the fiscal year was \$102,393. The increase in fund balance in the Construction and Transportation Fund for the fiscal year was \$2,088,002. The fund balance of Other Governmental Funds showed a decrease of \$781,797.

BUDGETARY HIGHLIGHTS

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$22,693,777 including school land, buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$604,109 from 2005 to 2006 and an increase of \$92,805 from 2004 to 2005. Total accumulated depreciation as of June 30, 2006 was \$6,541,962, and total depreciation expense for the year was \$638,319, resulting in total net capital assets of \$16,151,815.

Additional information of the District's capital assets can be found in Note 5 on page 33 of this report.

Debt Administration. At June 30, 2006, the District had \$10,465,000 in general obligation bonds and other long-term debt outstanding, of which \$735,000 is due within one year. In addition, the liability for compensated absences increased by \$5,368 from the prior year.

The District does not have an underlying bond rating.

Additional information of the District's long-term debt can be found in Note 6 on pages 34 - 36 of this report.

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

		Governmental Activities
Assets		
Cash and cash equivalents	\$	8,938,501
Investments		194,427
Due from other governments		693,805
Accrued interest receivable		617
Inventories and prepaid items		24,674
Capital assets, not being depreciated:		
Land		291,218
Construction in progress		36,035
Capital assets, net of accumulated depreciation:		
Buildings		13,052,005
Building improvements		794,492
Improvements other than buildings		774,540
Mobile equipment		1,015,154
Furniture and equipment		188,371
Total Assets	\$	26,003,839
Liabilities		
Accounts payable and accrued liabilities	\$	861,398
Deferred revenue		24,101
Interest payable on long-term liabilities		67,226
Long-term liabilities, due within one year		
Capital related liabilities		735,000
Long-term liabilities, due beyond one year		
Capital related liabilities		9,730,000
Non-capital related liabilities		110,594
Total Liabilities	\$	11,528,319
Net Assets		
Investment in capital assets, net of related debt	\$	5,686,815
Restricted net assets:		
Expendable:		
School-based activities		610,531
Debt service		1,357,304
Capital improvements		2,752,220
Unemployment benefits		62,405
Unrestricted		4,006,245
Total Net Assets	\$	14,475,520

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

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 13,173,585	465,390	2,169,924		(10,538,271)
Support services	6,707,205		1,364,698	111,275	(5,231,232)
Non-instructional services	1,710,752	276,523	1,377,741		(56,488)
Interest and other charges related to long-term liabilities	539,998				(539,998)
Total Governmental Activities	\$ 22,131,540	741,913	4,912,363	111,275	(16,365,989)
General Revenues:					
Taxes:					
					3,304,279
Unrestricted grants and contributions:					
					15,178,633
					165,141
					148,134
					51,052
					<u>18,847,239</u>
					2,481,250
					<u>11,994,270</u>
					<u>\$ 14,475,520</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006**

	Major Funds				Total Governmental Funds
	General Fund	School Food Service	Construction and Transportation	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 4,377,340	491,728	2,788,530	1,280,903	8,938,501
Investments				194,427	194,427
Due from other governments	261,668			432,137	693,805
Accrued interest receivable				617	617
Due from other funds	99,852				99,852
Inventories and prepaid items		24,674			24,674
Total Assets	\$ 4,738,860	516,402	2,788,530	1,908,084	9,951,876
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 603,791	60,607	36,310	160,690	861,398
Due to other funds		50,000		49,852	99,852
Deferred revenue				24,101	24,101
Total Liabilities	603,791	110,607	36,310	234,643	985,351
Fund Balances:					
Reserved for:					
Inventory		24,674			24,674
Ad valorem	18,230				18,230
Debt Service				1,424,530	1,424,530
Unemployment benefits				62,405	62,405
Unreserved:					
Designated for, reported in:					
Capital Projects funds			2,752,220		2,752,220
Undesignated, reported in:					
General fund	4,116,839				4,116,839
Special Revenue funds		381,121		186,506	567,627
Total Fund Balances	4,135,069	405,795	2,752,220	1,673,441	8,966,525
Total Liabilities and Fund Balances	\$ 4,738,860	516,402	2,788,530	1,908,084	9,951,876

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

**MARSHALL COUNTY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 8,966,525
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,541,962.	16,151,815
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(10,575,594)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(67,226)</u>
Total Net Assets - Governmental Activities	<u>\$ 14,475,520</u>

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

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds				Total Governmental Funds
	General Fund	School Food Service	Construction and Transportation	Other Governmental Funds	
Revenues:					
Local sources	\$ 3,178,800	188,170	16,725	843,453	4,227,148
State sources	14,886,351	9,328		845,042	15,740,721
Federal sources	191,693	1,454,770		2,998,458	4,644,921
Total Revenues	18,256,844	1,652,268	16,725	4,686,953	24,612,790
Expenditures:					
Instruction	10,279,019			2,487,735	12,766,754
Support services	5,031,148	167,846	32,159	1,562,612	6,793,765
Noninstructional services	88,723	1,525,550		45,099	1,659,372
Facilities acquisition and construction	11,387		397,041	85,402	493,830
Debt service:					
Principal				1,243,000	1,243,000
Interest				546,645	546,645
Other				4,457	4,457
Total Expenditures	15,410,277	1,693,396	429,200	5,974,950	23,507,823
Excess (Deficiency) of Revenues over Expenditures	2,846,567	(41,128)	(412,475)	(1,287,997)	1,104,967
Other Financing Sources (Uses):					
Sale of transportation equipment	3,500				3,500
Operating transfers in	82,028		2,500,477	871,797	3,454,302
Operating transfers out	(3,040,005)	(50,000)		(364,297)	(3,454,302)
Other financing uses	(21,016)				(21,016)
Total Other Financing Sources (Uses)	(2,975,493)	(50,000)	2,500,477	507,500	(17,516)
Net Change in Fund Balances	(128,926)	(91,128)	2,088,002	(780,497)	1,087,451
Fund Balances:					
July 1, 2005	4,262,695	508,188	664,218	2,455,238	7,890,339
Prior period adjustments	1,300			(1,300)	-0-
July 1, 2005, as restated	4,263,995	508,188	664,218	2,453,938	7,890,339
Decrease in reserve for inventory		(11,265)			(11,265)
June 30, 2006	\$ 4,135,069	405,795	2,752,220	1,673,441	8,966,525

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

**MARSHALL COUNTY SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 1,087,451
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$815,857 and the depreciation expense amounted to \$638,319.	177,538
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	1,243,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	11,104
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(21,210)
5. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(11,265)
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(5,368)
Change in Net Assets of Governmental Activities	\$ 2,481,250

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

**MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>58,112</u>
Total Assets	\$ <u><u>58,112</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 32,733
Due to student clubs	<u>25,379</u>
Total Liabilities	\$ <u><u>58,112</u></u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. 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 Fund 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 flow 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 are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

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

Construction and Transportation Fund - This is the school district's fund for accounting for the construction of building projects and/or purchase of transportation equipment.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

E. Encumbrances

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

F. Cash and Cash Equivalents

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

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

G. Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33 Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

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 financial 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.

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 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 obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction 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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

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 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 ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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

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

Unreserved - designated for, reported in capital projects funds - An account that represents a portion of the unreserved fund balances that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies (Continued)

O. Compensated Absences

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

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

Note 2: Changes in Accounting Standards

As required, the Marshall County School District has implemented Government 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.

Note 3: Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 3: Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments (Continued)

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 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates 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; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,938,501 and \$58,112, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents - \$8,938,501. The bank balance was \$10,648,855.

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, \$0 of the district's bank balance of \$10,648,855 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 \$0.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 3: Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments (Continued)

Investments

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury Bills	less than 1	\$ 194,427	AA
Total Investments		<u>\$ 194,427</u>	

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

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 4: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 99,852	
School Food Service		50,000
Other Governmental Funds		49,852
Total	\$ <u>99,852</u>	<u>99,852</u>

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

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 82,028	3,040,005
School Food Service		50,000
Construction and Transportation	2,500,477	
Other Governmental Funds	871,797	364,297
Total	\$ <u>3,454,302</u>	<u>3,454,302</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 5: Capital Assets

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

	Balance 7/1/2005	Additions	Retirements	Adjustments	Balance 6/30/2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 291,218				291,218
Construction in progress	-0-	36,035			36,035
Total non-depreciable capital assets	<u>291,218</u>	<u>36,035</u>	<u>-0-</u>	<u>-0-</u>	<u>327,253</u>
<u>Depreciable capital assets:</u>					
Buildings	17,032,888				17,032,888
Building improvements	796,913	163,500			960,413
Improvements other than buildings	636,999	222,897			859,896
Mobile equipment	2,619,926	335,095	(139,095)		2,815,926
Furniture and equipment	711,724	58,330	(72,653)		697,401
Total depreciable capital assets	<u>21,798,450</u>	<u>779,822</u>	<u>(211,748)</u>	<u>-0-</u>	<u>22,366,524</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,644,469	336,414			3,980,883
Building improvements	127,505	38,416			165,921
Improvements other than buildings	50,960	34,396			85,356
Mobile equipment	1,748,614	177,343	(125,185)		1,800,772
Furniture and equipment	522,633	51,750	(65,353)		509,030
Total accumulated depreciation	<u>6,094,181</u>	<u>638,319</u>	<u>(190,538)</u>	<u>-0-</u>	<u>6,541,962</u>
Total depreciable capital assets, net	<u>15,704,269</u>	<u>141,503</u>	<u>(21,210)</u>	<u>-0-</u>	<u>15,824,562</u>
Governmental activities capital assets, net	<u>\$ 15,995,487</u>	<u>177,538</u>	<u>(21,210)</u>	<u>-0-</u>	<u>16,151,815</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 382,111
Support services	216,469
Non-instructional services	39,739
Total depreciation expense	<u>\$ 638,319</u>

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 5: Capital Assets (Continued)

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

Commitments under construction contracts at June 30, 2006, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Potts Camp Multi-Purpose Building	\$ 1,000,000	-0-
Total	<u>\$ 1,000,000</u>	<u>-0-</u>

Note 6: Long-term Liabilities

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 6,720,000		440,000	6,280,000	465,000
B. Limited obligation bonds payable	4,440,000		255,000	4,185,000	270,000
C. Three mill note payable	548,000		548,000	-0-	-0-
E. Compensated absences payable	105,226	5,368		110,594	-0-
Total	<u>\$ 11,813,226</u>	<u>5,368</u>	<u>1,243,000</u>	<u>10,575,594</u>	<u>735,000</u>

A. General obligation bonds payable

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 6: Long-term Liabilities (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1999	Varies	2/1/1999	2/1/2019	\$ 8,000,000	\$ 6,020,000
General obligation bonds, Series 1987	5.00%	3/1/98	2/1/2018	<u>1,395,000</u>	<u>260,000</u>
Total				<u>\$ 9,395,000</u>	<u>\$ 6,280,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 465,000	274,738	739,738
2008	490,000	244,920	734,920
2009	375,000	218,917	593,917
2010	395,000	199,935	594,935
2011	415,000	182,821	597,821
2012-2016	2,395,000	619,656	3,014,656
2017-2018	<u>1,745,000</u>	<u>106,900</u>	<u>1,851,900</u>
Total	<u>\$ 6,280,000</u>	<u>1,847,887</u>	<u>8,127,887</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 6% of property assessments as of October 1, 2005. This debt will be retired from the \$8,000,000 Bond Issue Fund and the School Bond Debt Fund.

B. Limited obligation bonds payable

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 6: Long-term Liabilities (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement	Varies	12/1/1997	12/1/2017	\$ 5,545,000	\$ 4,185,000
Total				<u>\$ 5,545,000</u>	<u>\$ 4,185,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 270,000	193,760	463,760
2008	280,000	181,385	461,385
2009	295,000	168,447	463,447
2010	305,000	154,948	459,948
2011	320,000	140,725	460,725
2012-2014	1,845,000	452,903	2,297,903
2015-2018	870,000	44,000	914,000
Total	<u>\$ 4,185,000</u>	<u>1,336,168</u>	<u>5,521,168</u>

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

C. Three mill notes payable

This debt was paid off during the current fiscal year.

E. Compensated absences payable

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 7: Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 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 \$1,282,153, \$1,078,342, and \$980,565, respectively, which equaled the required contributions for each year.

Note 8: Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

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

<u>Major Fund</u>	<u>Explanation</u>	
General Fund	To correct a prior year error in recording an asset or liability	\$ 1,300
Other Governmental Funds	To correct a prior year error in recording an asset or liability	(1,300)
	Total	<u>\$ -0-</u>

Note 9: 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.

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Note 9: Risk Management (Continued)

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 BancorpSouth 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 the excess losses incurred by the pool.

REQUIRED SUPPLEMENTARY INFORMATION

**MARSHALL COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,879,300	3,280,723	3,178,800	401,423	(101,923)
State sources	15,176,537	14,810,913	14,886,351	(365,624)	75,438
Federal sources	55,000	191,604	191,693	136,604	89
Total Revenues	<u>18,110,837</u>	<u>18,283,240</u>	<u>18,256,844</u>	<u>172,403</u>	<u>(26,396)</u>
Expenditures:					
Instruction	11,261,642	10,275,712	10,279,019	985,930	(3,307)
Support services	5,672,671	5,031,148	5,031,148	641,523	-0-
Noninstructional services	94,025	88,723	88,723	5,302	-0-
Facilities acquisition and construction		11,387	11,387	(11,387)	-0-
Total Expenditures	<u>17,028,338</u>	<u>15,406,970</u>	<u>15,410,277</u>	<u>1,621,368</u>	<u>(3,307)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,082,499</u>	<u>2,876,270</u>	<u>2,846,567</u>	<u>1,793,771</u>	<u>(29,703)</u>
Other Financing Sources (Uses):					
Sale of transportation equipment		3,500	3,500	3,500	-0-
Operating transfers in	32,000	1,773,968	82,028	1,741,968	(1,691,940)
Operating transfers out		(4,731,862)	(3,040,005)	(4,731,862)	1,691,857
Other financing uses		(21,016)	(21,016)	(21,016)	-0-
Total Other Financing Sources (Uses)	<u>32,000</u>	<u>(2,975,410)</u>	<u>(2,975,493)</u>	<u>(3,007,410)</u>	<u>(83)</u>
Net Change in Fund Balances	<u>1,114,499</u>	<u>(99,140)</u>	<u>(128,926)</u>	<u>(1,213,639)</u>	<u>(29,786)</u>
Fund Balances:					
July 1, 2005	-0-	4,169,640	4,262,695	4,169,640	93,055
Prior period adjustments		103,781	1,300	103,781	(102,481)
July 1, 2005, as restated	<u>-0-</u>	<u>4,273,421</u>	<u>4,263,995</u>	<u>4,273,421</u>	<u>(9,426)</u>
June 30, 2006	<u>\$ 1,114,499</u>	<u>4,174,281</u>	<u>4,135,069</u>	<u>3,059,782</u>	<u>(39,212)</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SCHOOL FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Original to Final	Final to Actual
	Original	Final			
Revenues:					
Local sources	\$ 300,772	188,170	188,170	(112,602)	-0-
State sources	22,000	9,328	9,328	(12,672)	-0-
Federal sources	1,434,410	1,454,770	1,454,770	20,360	-0-
Total Revenues	<u>1,757,182</u>	<u>1,652,268</u>	<u>1,652,268</u>	<u>(104,914)</u>	<u>-0-</u>
Expenditures:					
Support services	161,000	167,846	167,846	(6,846)	-0-
Noninstructional services	1,296,450	1,536,815	1,525,550	(240,365)	11,265
Total Expenditures	<u>1,457,450</u>	<u>1,704,661</u>	<u>1,693,396</u>	<u>(247,211)</u>	<u>11,265</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>299,732</u>	<u>(52,393)</u>	<u>(41,128)</u>	<u>(352,125)</u>	<u>11,265</u>
Other Financing Sources (Uses):					
Operating transfers in	9,000			(9,000)	-0-
Operating transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>(41,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>(9,000)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>258,732</u>	<u>(102,393)</u>	<u>(91,128)</u>	<u>(361,125)</u>	<u>11,265</u>
Fund Balances:					
July 1, 2005	-0-	508,188	508,188	508,188	-0-
Decrease in reserve for inventory			<u>(11,265)</u>	<u>-0-</u>	<u>(11,265)</u>
June 30, 2006	<u>\$ 258,732</u>	<u>405,795</u>	<u>405,795</u>	<u>147,063</u>	<u>-0-</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

Budgetary Comparison Schedule

Note 1: Basis of Presentation

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

Note 2: Budget Amendments and Revisions

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

Note 3: Individual Fund Disclosures

The General Fund has an excess of expenditures over budget in the amount of \$3,307. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

SUPPLEMENTAL INFORMATION

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	73,214
Child nutrition cluster:		
School breakfast program	10.553	391,577
National school lunch program	10.555	1,077,724
Total child nutrition cluster		<u>1,469,301</u>
Total passed-through Mississippi Department of Education		<u>1,542,515</u>
Total U.S. Department of Agriculture		<u>1,542,515</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	46,326
Total Federal Communications Commission		<u>46,326</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,020,163
Vocational education - basic grants to states	84.048	43,607
Safe and drug-free schools and communities - state grants	84.186	25,372
State grants for innovative programs	84.298	12,217
Education technology state grants	84.318	26,283
Reading first state grants	84.357	533,697
Rural education	84.358	130,794
English language acquisition grants	84.365	26,750
Improving teacher quality - state grants	84.367	371,160
Grants for state assessments and related activities	84.369	888
Hurricane education recovery	84.938	35,881
Total		<u>2,226,812</u>

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	760,469
Special education - preschool grants	84.173	30,131
Total special education cluster		<u>790,600</u>
Total passed-through Mississippi Department of Education		<u>3,017,412</u>
Total U.S. Department of Education		<u>3,017,412</u>
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	19,222
Total passed-through Mississippi Department of Education		<u>19,222</u>
Total U.S. Department of Health and Human Services		<u>19,222</u>
Total for All Federal Awards		<u>\$ 4,625,475</u>

NOTES TO SCHEDULE

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

**MARSHALL COUNTY SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES -
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 16,260,021	11,280,906	655,200	1,034,128	3,289,787
Other	<u>7,247,802</u>	<u>1,485,848</u>	<u>438,659</u>	<u>78,799</u>	<u>5,244,496</u>
Total	<u>\$ 23,507,823</u>	<u>12,766,754</u>	<u>1,093,859</u>	<u>1,112,927</u>	<u>8,534,283</u>
Total number of students	3,154				
Cost per student	<u>\$ 7,454</u>	<u>4,048</u>	<u>347</u>	<u>353</u>	<u>2,706</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers' aides or classroom assistants of any type - (all the 1000, 2100, & 2200 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 functions: Support Services - School Administration (2400s).

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2006, which collectively comprise the Marshall County School District's basic financial statements and have issued our report thereon dated November 2, 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain

immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 2, 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.

November 2, 2006
Tupelo, Mississippi

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

J.E. VANCE & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Marshall County School District

Compliance

We have audited the compliance of the Marshall County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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, Marshall County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 06-1.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 the reportable condition described in the finding referred to above is not a material weakness.

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.

November 2, 2006
Tupelo, Mississippi

A handwritten signature in black ink that reads "J. E. Vance & Company". The signature is written in a cursive, flowing style.

J.E. VANCE & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**

Superintendent and School Board
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2006, which collectively comprise Marshall County School District's basic financial statements and have issued our report thereon dated November 2, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$110,311 of classroom supply funds carried over from previous years.

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

1. Finding

The schools' principals failed to maintain a listing of all teachers with the amounts allocated to each teacher and the carry forward amounts for each teacher, as well as a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teachers.

Recommendation

The district should comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), which requires that information on each teachers' allocations, expenditures and balances are to be maintained. The requirement is, at a minimum, that each school principal shall maintain a listing of all teachers, the amounts allocated to each teacher, the carry forward amounts for each teacher, a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teachers.

School District's Response

The district has informed all principals of this requirement and periodically inspects the schools' documentation to ensure maintenance as of November 2006.

2. Finding

The district received goods prior to purchase orders being issued.

Recommendation

The district should prepare purchase orders for the purchase of all goods and/or services prior to purchase and receipt of such goods and/or services, except for those goods and/or services specifically exempt in the school board approved purchasing policy.

Response

The district will prepare purchase order in accordance with the school board approved purchasing policy as of November 2006.

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.

November 2, 2006
Tupelo, Mississippi

J. S. Vance & Company

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MARSHALL 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 auditors' report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child Nutrition | |
| CFDA #10.553 | |
| CFDA #10.555 | |
| b. Title I – Grants to Local Educational Agencies | |
| CFDA #84.010 | |

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

- | | |
|---|------------|
| 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 finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

Reportable Condition Not Considered to be a Material Weakness

06-1 Finding

Program: Child nutrition cluster – CFDA#s 10.553 & 10.555: U.S. Department of Agriculture; passed-through the Mississippi Department of Education

Compliance requirement: Allowable cost/cost principles

During our review of the child nutrition program, we noted that several pre-numbered purchase orders were issued subsequent to the receipt of goods and/or services. This situation represents a weakness in the internal controls for the allowable costs requirement of this federal program.

Recommendation

The district should implement policies and procedures that would ensure compliance with the allowable costs requirement for federal program funds. The district should prepare purchase orders for the purchase of all goods and/or services prior to the purchase and receipt of goods and/or services, except for those goods and/or services specifically exempt in the school board approved purchasing policy.

Marshall County Public Schools

DON RANDOLPH
SUPERINTENDENT OF EDUCATION
158 EAST COLLEGE AVENUE • P. O. BOX 38

Holly Springs, Mississippi 38635

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section ____315(c) of OMB Circular A-133, the Marshall County School District has prepared and hereby submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

Finding

06-1

Action:

Corrective Action Plan Details

a. Name of Contact Person Responsible for Corrective

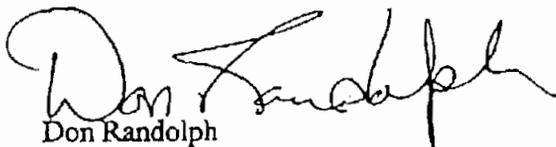
Penne Robinson, Business Manager (662) 252-4271

b. Corrective Action Planned:

The district will prepare pre-numbered purchase orders prior to the purchase or receipt of food.

c. Anticipated Completion Date:

The district will have this corrected, beginning in November 2006.



Don Randolph
Superintendent of Education