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**MARSHALL COUNTY SCHOOL DISTRICT**

**FINANCIAL AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**MARSHALL COUNTY SCHOOL DISTRICT  
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JUNE 30, 2008**

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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, 2008, 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, 2008, 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 April 20, 2009, 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 42 through 44 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Tupelo, Mississippi  
April 20, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008. 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 2008 increased \$1,062,299 which represents an approximate 7% increase from fiscal year 2007. Total net assets for 2007 increased \$1,635,908 represents an 11% increase from fiscal year 2006.
- General revenues account for \$19,993,038 and \$19,615,847 in revenue, or 77% and 77% of all revenues for fiscal years 2008 and 2007 respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,981,338 or 23% of total revenues for 2008 and \$5,942,401 or 23% of total revenues for 2007.
- The District had \$24,831,722 and \$23,922,340 in expenses for fiscal years 2008 and 2007; only \$5,981,338 for 2008 and \$5,942,401 for 2007 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,993,038 for 2008 and \$19,615,847 for 2007 were adequate to provide for these programs.
- Among major funds, the General Fund had \$19,387,214 in revenues and \$19,130,944 in expenditures for 2008 and \$18,892,164 in revenues and \$17,787,723 in expenditures in 2007. The General Fund's fund balance increased by \$171,627 from 2007 to 2008 and increased \$945,514 from 2006 to 2007.
- Capital assets, net of accumulated depreciation, increased by \$409,698 for 2008 and increased by \$908,360 for 2007.
- Long-term debt decreased by \$770,000 for 2008 and decreased by \$735,000 for 2007. This decrease was due to the annual payment on long-term debt outstanding. In addition, the liability for compensated absences increased by \$1,454 for 2008 and decreased by \$9,339 for 2007.

## 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, sixteenth section and interest on long-term liabilities.

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

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

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

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

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Department of Education. 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 and 19 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 a separate Statement of Fiduciary Assets and Liabilities 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 – 40 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 schedule has been provided for the General Fund and each additional major Special Revenue fund. This required supplementary information can be found on pages 42 – 44 of this report.

A schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 46 – 47 of this report.

A Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is required by the Mississippi Department of Education and can be found on page 48 of this report.

Statements of revenues, expenditures and changes in fund balance – last four years for the General Fund and for all governmental funds is required by the Mississippi Department of Education and can be found on pages 50-51 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 \$17,173,727 as of June 30, 2008.

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

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	2008	2007	Total Dollar Variance	Total Percentage Variance
Current Assets	\$ 9,206,661	9,427,983	(221,322)	-2.35%
Capital Assets, net	17,469,873	17,060,175	409,698	2.40%
<b>Total Assets</b>	<b>26,676,534</b>	<b>26,488,158</b>	<b>188,376</b>	<b>0.71%</b>
Current Liabilities	440,098	545,475	(105,377)	-19.32%
Long-term debt outstanding	9,062,709	9,831,255	(768,546)	-7.82%
<b>Total Liabilities</b>	<b>9,502,807</b>	<b>10,376,730</b>	<b>(873,923)</b>	<b>-8.42%</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	8,509,873	7,330,175	1,179,698	16.09%
Restricted	3,514,353	3,801,925	(287,572)	-7.56%
Unrestricted	5,149,501	4,979,328	170,173	3.42%
<b>Total Net Assets</b>	<b>\$ 17,173,727</b>	<b>16,111,428</b>	<b>1,062,299</b>	<b>6.59%</b>

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

- Increase in net capital assets in the amount of \$409,698.
- The principal retirement of \$770,000 of long-term debt

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2008 and June 30, 2007 were \$25,974,376 and \$25,558,248, respectively. The total cost of all programs and services for 2008 was \$24,831,722 and \$23,922,340 for 2007. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	2008	2007	Total Dollar Variance	Total Percentage Variance
<b>Revenues:</b>				
Program Revenues:				
Charges for Services	\$ 775,461	766,961	8,500	1.11%
Operating grants and cont	5,100,624	5,070,243	30,381	0.60%
Capital grants and contributions	105,253	105,197	56	0.05%
General Revenues:				
Property Taxes	3,356,420	3,434,758	(78,338)	-2.28%
Grants and cont. not restricted	16,623,639	16,175,077	448,562	2.77%
Other	12,979	6,012	6,967	115.88%
<b>Total Revenues</b>	<b>25,974,376</b>	<b>25,558,248</b>	<b>416,128</b>	<b>1.63%</b>
<b>Expenses:</b>				
Instruction	14,836,714	14,151,909	684,805	4.84%
Support Services	7,760,365	7,649,772	110,593	1.45%
Non-instructional	1,763,672	1,642,412	121,260	7.38%
Interest and other charges related to long-term liabilities	470,971	478,247	(7,276)	-1.52%
<b>Total Expenses</b>	<b>24,831,722</b>	<b>23,922,340</b>	<b>909,382</b>	<b>3.80%</b>
<b>Increase in Net Assets</b>	<b>\$ 1,142,654</b>	<b>1,635,908</b>	<b>(493,254)</b>	<b>-30.15</b>

**Governmental activities.** The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, 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.

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 14,836,714	(12,310,348)	14,151,909	(11,451,624)
Support Services	7,760,365	(6,123,805)	7,649,772	(6,074,751)
Non-instructional	1,763,672	54,740	1,642,412	24,683
Interest and other charges related to long term liabilities	470,971	(470,971)	478,247	(478,247)
<b>Total Expenses</b>	<b>\$ 24,831,722</b>	<b>(18,850,384)</b>	<b>\$ 23,922,340</b>	<b>(17,979,939)</b>

- Net cost of governmental activities, (\$18,850,384 and \$17,979,939) was financed by general revenue, which is made up of primarily property taxes of (\$3,356,420 for 2008 and \$3,434,758 for 2007) and state revenues of (\$16,057,345 for 2008 and \$15,714,887 for 2007).
- Investment earnings accounted for \$326,874 for 2008 and \$158,060 for 2007 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 \$8,859,633, a decrease of \$85,409. \$5,604,897 or 63% 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 \$3,254,736 or 37% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$171,627. The changes in the fund balances of the remaining major funds and other governmental funds were as follows:

<u>Fund</u>	<u>Increase</u> <u>(Decrease)</u>
Food Service	(34,032)
Construction & Transportation	75,025
Other Governmental Funds	(298,029)

## 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 Special Revenue funds is provided in this report as required supplementary information on pages 42 – 44.

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, 2008, the District's total capital assets were \$25,226,608, including land, school buildings, building improvements, improvement other than buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$996,092 from 2007 to 2008 and an increase of \$1,536,739 from 2006 to 2007. Total accumulated depreciation as of June 30, 2008, was \$7,756,735 and total depreciation expense for the year was \$742,457, resulting in total net capital assets of \$17,469,873.

Additional information of the District's capital assets can be found in Note 4 on pages 34 – 35 of this report.

**Debt Administration.** At June 30, 2008, the District had \$9,062,709 in general obligation bonds and other long-term debt outstanding, of which \$670,000 is due within one year. In addition, the liability for compensated absences increased by \$1,454 from the prior year

The District does not have an underlying bond rating.

Additional information of the District's long-term debt can be found in Note 5 on pages 35 – 38 of this report.

## **CURRENT ISSUES**

The Marshall 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 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, PO Box 38, 158 East College Ave., Holly Springs, Mississippi, 38635.

**FINANCIAL STATEMENTS**

**MARSHALL COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

**EXHIBIT A**

		<u>Governmental Activities</u>
<b>Assets</b>		
Cash and cash equivalents	\$	8,285,742
Investments		230,901
Due from other governments		659,481
Accrued interest receivable		178
Other receivables, net		1,644
Inventories		28,715
Capital assets, not being depreciated:		
Land		322,218
Construction in progress		101,566
Capital assets, net of accumulated depreciation:		
Buildings		13,109,732
Building improvements		1,426,783
Improvements other than buildings		882,314
Mobile equipment		1,393,394
Furniture and equipment		233,866
Total Assets	\$	<u>26,676,534</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	331,528
Unearned revenue		15,500
Interest payable on long-term liabilities		93,070
Long-term liabilities, due within one year		
Capital related liabilities		670,000
Long-term liabilities, due beyond one year		
Capital related liabilities		8,290,000
Non-capital related liabilities		102,709
Total Liabilities	\$	<u>9,502,807</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	\$	8,509,873
Restricted net assets:		
Expendable:		
School-based activities		381,402
Debt service		952,063
Capital improvements		2,123,247
Unemployment benefits		57,641
Unrestricted		5,149,501
Total Net Assets	\$	<u>17,173,727</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

**Exhibit B**

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
<b>Governmental Activities:</b>					
Instruction	\$ 14,836,714	461,666	2,064,700		(12,310,348)
Support services	7,760,365		1,531,307	105,253	(6,123,805)
Non-instructional services	1,763,672	313,795	1,504,617		54,740
Interest and other charges related to long-term liabilities	470,971				(470,971)
<b>Total Governmental Activities</b>	<b>\$ 24,831,722</b>	<b>775,461</b>	<b>5,100,624</b>	<b>105,253</b>	<b>(18,850,384)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					2,923,875
					432,545
<b>Unrestricted grants and contributions:</b>					
					16,057,345
					239,420
					326,874
					12,979
					<u>19,993,038</u>
					1,142,654
					16,111,428
					<u>(80,355)</u>
					16,031,073
					<u>\$ 17,173,727</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008**

**Exhibit C**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service	Construction and Transportation		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,128,970	287,721	2,123,247	745,804	8,285,742
Investments				230,901	230,901
Due from other governments	278,856			380,625	659,481
Accrued interest receivable				178	178
Due from other funds	112,620				112,620
Inventories		28,715			28,715
<b>Total Assets</b>	<b>\$ 5,520,446</b>	<b>316,436</b>	<b>2,123,247</b>	<b>1,357,508</b>	<b>9,317,637</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 268,236	7,157		56,135	331,528
Due to other funds		50,000		60,976	110,976
Unearned revenue				15,500	15,500
<b>Total Liabilities</b>	<b>268,236</b>	<b>57,157</b>	<b>-0-</b>	<b>132,611</b>	<b>458,004</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Inventory		28,715			28,715
Debt Service				1,045,133	1,045,133
Unemployment benefits				57,641	57,641
<b>Unreserved:</b>					
<b>Designated for, reported in:</b>					
Capital Projects funds			2,123,247		2,123,247
<b>Undesignated, reported in:</b>					
General fund	5,252,210				5,252,210
Special Revenue funds		230,564		122,123	352,687
<b>Total Fund Balances</b>	<b>5,252,210</b>	<b>259,279</b>	<b>2,123,247</b>	<b>1,224,897</b>	<b>8,859,633</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,520,446</b>	<b>316,436</b>	<b>2,123,247</b>	<b>1,357,508</b>	<b>9,317,637</b>

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, 2008**

**Exhibit C-1**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 8,859,633
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 \$7,756,735.	17,469,873
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,062,709)
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>(93,070)</u>
Total Net Assets - Governmental Activities	<u>\$ 17,173,727</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, 2008**

**Exhibit D**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service	Construction and Transportation		
<b>Revenues:</b>					
Local sources	\$ 3,755,619	176,296	75,025	464,073	4,471,013
State sources	15,425,327	8,447		1,050,685	16,484,459
Federal sources	206,268	1,587,158		3,224,756	5,018,182
Total Revenues	<u>19,387,214</u>	<u>1,771,901</u>	<u>75,025</u>	<u>4,739,514</u>	<u>25,973,654</u>
<b>Expenditures:</b>					
Instruction	12,083,727			2,370,729	14,454,456
Support services	6,217,347	145,750		1,548,855	7,911,952
Noninstructional services	78,155	1,594,503		42,439	1,715,097
Facilities acquisition and construction	751,715				751,715
Debt service:					
Principal				770,000	770,000
Interest				436,423	436,423
Other				4,012	4,012
Total Expenditures	<u>19,130,944</u>	<u>1,740,253</u>	<u>-0-</u>	<u>5,172,458</u>	<u>26,043,655</u>
Excess (Deficiency) of Revenues over Expenditures	<u>256,270</u>	<u>31,648</u>	<u>75,025</u>	<u>(432,944)</u>	<u>(70,001)</u>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	3,035				3,035
Operating transfers in	70,747			420,121	490,868
Operating transfers out	(155,662)	(50,000)		(285,206)	(490,868)
Other financing uses	(2,763)				(2,763)
Total Other Financing Sources (Uses)	<u>(84,643)</u>	<u>(50,000)</u>	<u>-0-</u>	<u>134,915</u>	<u>272</u>
Net Change in Fund Balances	<u>171,627</u>	<u>(18,352)</u>	<u>75,025</u>	<u>(298,029)</u>	<u>(69,729)</u>
<b>Fund Balances:</b>					
Beginning	5,080,583	293,311	2,048,222	1,522,926	8,945,042
Decrease in reserve for inventory		(15,680)			(15,680)
Ending	<u>\$ 5,252,210</u>	<u>259,279</u>	<u>2,123,247</u>	<u>1,224,897</u>	<u>8,859,633</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Exhibit D-1

Net Change in Fund Balances - Governmental Funds \$ (69,729)

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 \$1,247,125 and the depreciation expense amounted to \$742,457. | 504,668  |
| 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.  | 770,000  |
| 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.  | (30,536) |
| 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.   | (14,615) |
| 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.   | (15,680) |
| 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.	<u>(1,454)</u>
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Change in Net Assets of Governmental Activities	\$ <u><u>1,142,654</u></u>
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The notes to the financial statements are an integral part of this statement.

**MARSHALL COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2008**

**Exhibit E**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>819,282</u>
<b>Total Assets</b>	\$ <u><u>819,282</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 817,638
Due to other funds	<u>1,644</u>
<b>Total Liabilities</b>	\$ <u><u>819,282</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, 2008**

**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**

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.

For financial reporting purposes, Marshall County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District

**B. Basis of Presentation**

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

School Food Service Fund – This special revenue fund accounts for all food service activities. Revenues include charges for services and grants specifically designated for food service. Food service expenditures are made from this fund.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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.

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District’s fiduciary funds include the following:

Payroll Clearing Fund – This fund is used to account for all payroll transactions including salaries and wages, withholding, employee benefits, and payroll taxes.

School Agency Account Fund – This fund is used to account for student club funds.

Accounts Payable Clearing Fund – This fund is used to account for the payment of all claims against the school district.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUND TYPES**

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

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

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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

FIDUCIARY FUNDS

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

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

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

**D. Account Classifications**

The account classifications used in the financial statements conform to the broad classifications recommended in 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*, 2003 issued by the U.S. Department of Education.

**E. Encumbrances**

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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**F. Assets, Liabilities, and Net Assets or Equity**

**1. Cash, Cash equivalents and Investments**

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in 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 an original maturity greater than three months when acquired.

Investments are reported at fair market value.

**2. Receivables and Payables.**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

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

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

**7. Compensated Absences**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal 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 retires.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 5 for details.

9. Fund Equity

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

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following 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 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.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

**Note 2: Cash and Cash Equivalents 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 Deposit 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 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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 2: Cash and Cash Equivalents and Investments (Continued)**

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 \$8,285,742 and \$819,282, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents - \$8,285,742. The bank balance was \$8,972,619.

*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, 2008, \$0 of the district's bank balance of \$8,972,619 was exposed to custodial credit risk.

Investments

As of June 30, 2008, 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	\$ 230,901	AA
Total Investments		<u>\$ 230,901</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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 2: Cash and Cash Equivalents and Investments (Continued)**

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, 2008, 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.

**Note 3: Interfund Receivables, Payables and Transfers**

The following is a summary of interfund transactions and balances:

**A. Due From/To Other Funds**

Receivable Fund	Payable Fund	Amount
General Fund	School Food Service	\$ 50,000
General Fund	Other Governmental Funds	60,976
General Fund	Fiduciary Funds	1,644
Total		\$ 112,620

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

**B. Interfund Transfers**

Transfer Out	Transfer In	Amount
General Fund	Other Governmental Funds	\$ 155,662
School Food Service	General Fund	50,000
Other Governmental Funds	General Fund	20,747
Other Governmental Funds	Other Governmental Funds	264,459
Total		\$ 490,868

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, 2008**

**Note 4: Capital Assets**

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

	Balance 7/1/2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>						
Land	\$ 291,218	31,000				322,218
Construction in progress	311,675	234,860		(444,969)		101,566
Total non-depreciable capital assets	<u>602,893</u>	<u>265,860</u>	<u>-0-</u>	<u>(444,969)</u>	<u>-0-</u>	<u>423,784</u>
<u>Depreciable capital assets:</u>						
Buildings	17,875,508				(81,628)	17,793,880
Building improvements	1,001,213	254,604		444,969		1,700,786
Improvements other than buildings	929,277	117,432				1,046,709
Mobile equipment	3,131,223	480,382	(143,563)			3,468,042
Furniture and equipment	690,402	128,847	(25,842)			793,407
Total depreciable capital assets	<u>23,627,623</u>	<u>981,265</u>	<u>(169,405)</u>	<u>444,969</u>	<u>(81,628)</u>	<u>24,802,824</u>
<u>Less accumulated depreciation for:</u>						
Buildings	4,333,789	351,632			(1,273)	4,684,148
Building improvements	205,970	68,033				274,003
Improvements other than buildings	122,527	41,868				164,395
Mobile equipment	1,996,585	207,270	(129,207)			2,074,648
Furniture and equipment	511,470	73,654	(25,583)			559,541
Total accumulated depreciation	<u>7,170,341</u>	<u>742,457</u>	<u>(154,790)</u>	<u>-0-</u>	<u>(1,273)</u>	<u>7,756,735</u>
Total depreciable capital assets, net	<u>16,457,282</u>	<u>238,808</u>	<u>(14,615)</u>	<u>444,969</u>	<u>(80,355)</u>	<u>17,046,089</u>
Governmental activities capital assets, net	<u>\$ 17,060,175</u>	<u>504,668</u>	<u>(14,615)</u>	<u>-0-</u>	<u>(80,355)</u>	<u>17,469,873</u>

Adjustment to correct asset recorded twice.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 433,130
Support services	258,351
Non-instructional services	<u>50,976</u>
Total depreciation expense	<u>\$ 742,457</u>

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 4: Capital Assets (Continued)**

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

Commitments under construction contracts at June 30, 2008, are summarized as follows:

	Spent to 6/30/08	Remaining Commitment
Byhalia Air Conditioning	\$ 25,802	104,698
Mary Reid Air Conditioning	49,734	16,578
Potts Camp Air Conditioning	26,030	8,677
Total	<u>\$ 101,566</u>	<u>129,953</u>

Construction projects included in governmental activities are funded with Construction and Transportation Fund.

**Note 5: Long-term Liabilities**

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

	Balance 7/1/2007	Additions	Reductions	Balance 6/30/2008	Amounts due within one year
A. General obligation bonds payable	\$ 5,815,000		490,000	5,325,000	375,000
B. Limited obligation bonds payable	3,915,000		280,000	3,635,000	295,000
C. Compensated absences payable	101,255	1,454		102,709	-0-
Total	<u>\$ 9,831,255</u>	<u>1,454</u>	<u>770,000</u>	<u>9,062,709</u>	<u>670,000</u>

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 5: Long-term Liabilities (Continued)**

The general obligation bonds have a variable interest rate established in the debt covenant at the time of issue, as follows:

<u>Period Ending</u>	<u>Interest Rate</u>
2/1/2009	5.70
2/1/2010	4.20
2/1/2011	4.25
2/1/2012	4.30
2/1/2013	4.30
2/1/2014	4.40
2/1/2015	4.50
2/1/2016	4.25
2/1/2017	4.00
2/1/2018	4.00
2/1/2019	4.00

The limited obligation bonds have a variable interest rate established in the debt covenant at the time of issue, as follows:

<u>Period Ending</u>	<u>Interest Rate</u>
12/1/2008	4.500
12/1/2009	4.500
12/1/2010	4.600
12/1/2011	4.750
12/1/2012	4.800
12/1/2013	4.875
12/1/2014	4.900
12/1/2015	5.000
12/1/2016	5.000
12/1/2017	5.000

**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, 2008**

**Note 5: Long-term Liabilities (Continued)**

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1999	Varies	2/1/1999	2/1/2019	\$ 8,000,000	\$ 5,325,000
Total				<u>\$ 8,000,000</u>	<u>\$ 5,325,000</u>

Details of the district's June 30, 2008 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	375,000	218,918	593,918
2010	395,000	199,935	594,935
2011	415,000	182,821	597,821
2012	435,000	164,650	599,650
2013	455,000	145,515	600,515
2014-2018	2,640,000	404,191	3,044,191
2019	610,000	12,200	622,200
Total	<u>\$ 5,325,000</u>	<u>1,328,230</u>	<u>6,653,230</u>

This debt will be retired from the \$8,000,000 Bond Issue Fund and the School Bond Debt Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 4.01% of property assessments as of October 1, 2007.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 5: Long-term Liabilities (Continued)**

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement	Varies	12/01/1997	12/01/2017	\$ 5,545,000	\$ 3,635,000
Total				\$ 5,545,000	\$ 3,635,000

Details of the district's June 30, 2008 limited obligation bonded indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	295,000	168,448	463,448
2010	305,000	154,947	459,947
2011	320,000	140,725	460,725
2012	335,000	125,409	460,409
2013	350,000	109,053	459,053
2014-2018	2,030,000	262,441	2,292,441
Total	\$ 3,635,000	961,023	4,596,023

This debt will be retired from the MAEP Debt Fund.

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.

C. Compensated absences payable

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

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 6: Defined Benefit Pension Plan**

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2008 was 11.85% 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, 2008, 2007 and 2006 were \$1,558,048 \$1,433,587 and \$1,282,153, respectively, which equaled the required contributions for each year.

**Note 7: Prior Period Adjustments**

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct capital asset recorded twice	(81,628)
To correct accumulated depreciation	<u>1,273</u>
Total	<u><u>(80,355)</u></u>

**Note 8: Contingencies**

Federal Grants. – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

**MARSHALL COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Note 9: Subsequent Events**

Subsequent to June 30, 2008 Whitfield Electric Company, Inc. prevailed in a suit of the Marshall County School District in Marshall County Circuit Court (Cause No. CV2008-000316). The court ruled that the Marshall County School District failed to award a contract for baseball and softball field lighting to the lowest and best bidder in violation of state law. At the date of this report the Court had not yet determined the amount of the damages to be awarded to the Whitfield Electric Company, Inc. No reasonable estimate can be made at this time.

**Note 10: Risk Management**

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

**Participation in Public Entity Risk Pool**

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the member'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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

The district has not had an additional assessment for excess losses incurred by the pool.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARSHALL COUNTY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

**General Fund**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 3,770,924	3,755,619	3,755,619	(15,305)	-0-
State sources	15,999,971	15,410,076	15,425,327	(589,895)	15,251
Federal sources	176,000	206,268	206,268	30,268	-0-
Total Revenues	<u>19,946,895</u>	<u>19,371,963</u>	<u>19,387,214</u>	<u>(574,932)</u>	<u>15,251</u>
<b>Expenditures:</b>					
Instruction	13,004,996	12,083,727	12,083,727	921,269	-0-
Support services	6,846,256	6,217,347	6,217,347	628,909	-0-
Noninstructional services	78,000	78,155	78,155	(155)	-0-
Facilities acquisition and construction		751,715	751,715	(751,715)	-0-
Total Expenditures	<u>19,929,252</u>	<u>19,130,944</u>	<u>19,130,944</u>	<u>798,308</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>17,643</u>	<u>241,019</u>	<u>256,270</u>	<u>223,376</u>	<u>15,251</u>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment		3,035	3,035	3,035	-0-
Operating transfers in	319,000	137,635	70,747	(181,365)	(66,888)
Operating transfers out	(263,000)	(222,550)	(155,662)	40,450	66,888
Other financing uses		(2,763)	(2,763)	(2,763)	-0-
Total Other Financing Sources (Uses)	<u>56,000</u>	<u>(84,643)</u>	<u>(84,643)</u>	<u>(140,643)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>73,643</u>	<u>156,376</u>	<u>171,627</u>	<u>82,733</u>	<u>15,251</u>
<b>Fund Balances:</b>					
July 1, 2007	<u>5,080,583</u>	<u>5,080,583</u>	<u>5,080,583</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2008	<u>\$ 5,154,226</u>	<u>5,236,959</u>	<u>5,252,210</u>	<u>82,733</u>	<u>15,251</u>

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

**MARSHALL COUNTY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2008**

**School Food Service Fund**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 274,774	176,296	176,296	(98,478)	-0-
State sources	22,000	8,447	8,447	(13,553)	-0-
Federal sources	1,531,626	1,587,158	1,587,158	55,532	-0-
Total Revenues	<u>1,828,400</u>	<u>1,771,901</u>	<u>1,771,901</u>	<u>(56,499)</u>	<u>-0-</u>
<b>Expenditures:</b>					
Support services	223,600	145,750	145,750	77,850	-0-
Noninstructional services	1,554,800	1,594,503	1,594,503	(39,703)	-0-
Total Expenditures	<u>1,778,400</u>	<u>1,740,253</u>	<u>1,740,253</u>	<u>38,147</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>50,000</u>	<u>31,648</u>	<u>31,648</u>	<u>(18,352)</u>	<u>-0-</u>
<b>Other Financing Sources (Uses):</b>					
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>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-0-</u>	<u>-0-</u>
Net Change in Fund Balances	<u>-0-</u>	<u>(18,352)</u>	<u>(18,352)</u>	<u>(18,352)</u>	<u>-0-</u>
<b>Fund Balances:</b>					
July 1, 2007	293,311	293,311	293,311	-0-	-0-
Increase in reserve for inventory		<u>(15,680)</u>	<u>(15,680)</u>	<u>(15,680)</u>	<u>-0-</u>
June 30, 2008	<u>\$ 293,311</u>	<u>259,279</u>	<u>259,279</u>	<u>(34,032)</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, 2008**

**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.

**SUPPLEMENTAL INFORMATION**

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	457,336
National school lunch program	10.555	1,102,093
Total child nutrition cluster		<u>1,559,429</u>
Total passed-through Mississippi Department of Education		<u>1,559,429</u>
<b>Total U.S. Department of Agriculture</b>		<u>1,559,429</u>
<b>Federal Communications Commission</b>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	<u>53,923</u>
<b>Total Federal Communications Commission</b>		<u>53,923</u>
<b>National Aeronautics and Space Administration</b>		
Direct program		
Aerospace education services program	43.001	<u>276</u>
<b>Total National Aeronautics and Space Administration</b>		<u>276</u>
<b>U.S. Department of Education</b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,361,692
Career and technical education - basic grants to states	84.048	45,836
Safe and drug-free schools and communities - state grants	84.186	22,675
State grants for innovative programs	84.298	5,910
Education technology state grants	84.318	11,252
Reading first state grants	84.357	594,218
Rural education	84.358	91,269
English language acquisition grants	84.365	13,723
Improving teacher quality - state grants	84.367	349,855
Total		<u>2,496,430</u>

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008**

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	676,874
Special education - preschool grants	84.173	18,300
Total special education cluster		<u>695,174</u>
Total passed-through Mississippi Department of Education		<u>3,191,604</u>
<b>Total U.S. Department of Education</b>		<u>3,191,604</u>
<b>U.S. Department of Health and Human Services</b>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	47,358
Total passed-through Mississippi Department of Education		<u>47,358</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>47,358</u>
<b>Total for All Federal Awards</b>		<u>\$ 4,852,590</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, 2008**

<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	\$ 18,152,990	13,724,795	783,941	1,364,747	2,279,507
Other	<u>7,890,665</u>	<u>2,643,432</u>	<u>262,161</u>	<u>83,088</u>	<u>4,901,984</u>
Total	<u>\$ 26,043,655</u>	<u>16,368,227</u>	<u>1,046,102</u>	<u>1,447,835</u>	<u>7,181,491</u>
Total number of students*	3,099				
Cost per student	<u>\$ 8,404</u>	<u>5,282</u>	<u>338</u>	<u>467</u>	<u>2,317</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.

\* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

**OTHER SUPPLEMENTAL INFORMATION**

**MARSHALL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GENERAL FUND – LAST FOUR YEARS**

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
<b>Revenues:</b>				
Local sources	\$ 3,755,619	3,536,103	3,178,800	2,807,046
State sources	15,425,327	15,130,400	14,886,351	13,120,638
Federal sources	206,268	225,661	191,693	164,434
Total Revenues	<u>19,387,214</u>	<u>18,892,164</u>	<u>18,256,844</u>	<u>16,092,118</u>
<b>Expenditures:</b>				
Instruction	12,083,727	11,180,410	10,279,019	9,320,716
Support services	6,217,347	6,077,472	5,031,148	4,603,075
Noninstructional services	78,155	67,157	88,723	84,974
Facilities acquisition and construction	751,715	462,684	11,387	
Total Expenditures	<u>19,130,944</u>	<u>17,787,723</u>	<u>15,410,277</u>	<u>14,008,765</u>
Excess (Deficiency) of Revenues over Expenditures	<u>256,270</u>	<u>1,104,441</u>	<u>2,846,567</u>	<u>2,083,353</u>
<b>Other Financing Sources (Uses):</b>				
Insurance loss recovery				4,980
Sale of transportation equipment	3,035		3,500	2,359
Sale of other property				1,312
Operating transfers in	70,747	69,637	82,028	1,814,005
Operating transfers out	(155,662)	(223,863)	(3,040,005)	(2,444,281)
Other financing uses	(2,763)	(4,701)	(21,016)	(917)
Total Other Financing Sources (Uses)	<u>(84,643)</u>	<u>(158,927)</u>	<u>(2,975,493)</u>	<u>(622,542)</u>
Net Change in Fund Balances	<u>171,627</u>	<u>945,514</u>	<u>(128,926)</u>	<u>1,460,811</u>
<b>Fund Balances:</b>				
Beginning	5,080,583	4,135,069	4,262,695	2,800,939
Prior period adjustments			1,300	945
Beginning, as restated	<u>5,080,583</u>	<u>4,135,069</u>	<u>4,263,995</u>	<u>2,801,884</u>
Ending	<u>\$ 5,252,210</u>	<u>5,080,583</u>	<u>4,135,069</u>	<u>4,262,695</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**MARSHALL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ALL GOVERNMENTAL FUNDS – LAST FOUR YEARS**

"UNAUDITED"

	2008	2007*	2006*	2005*
<b>Revenues:</b>				
Local sources	\$ 4,471,013	4,365,790	4,227,148	4,004,327
State sources	16,484,459	16,222,532	15,740,721	14,026,437
Federal sources	5,018,182	4,969,926	4,644,921	4,749,407
<b>Total Revenues</b>	<b>25,973,654</b>	<b>25,558,248</b>	<b>24,612,790</b>	<b>22,780,171</b>
<b>Expenditures:</b>				
Instruction	14,454,456	13,753,417	12,766,754	11,870,656
Support services	7,911,952	7,788,611	6,793,765	6,159,839
Noninstructional services	1,715,097	1,647,143	1,659,372	1,661,966
Facilities acquisition and construction	751,715	1,187,641	493,830	
<b>Debt service:</b>				
Principal	770,000	735,000	1,243,000	894,116
Interest	436,423	478,465	546,645	599,202
Other	4,012	4,474	4,457	
<b>Total Expenditures</b>	<b>26,043,655</b>	<b>25,594,751</b>	<b>23,507,823</b>	<b>21,185,779</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(70,001)</b>	<b>(36,503)</b>	<b>1,104,967</b>	<b>1,594,392</b>
<b>Other Financing Sources (Uses):</b>				
Insurance loss recovery				4,980
Sale of transportation equipment	3,035		3,500	2,359
Sale of other property				1,312
Operating transfers in	490,868	586,595	3,454,302	2,806,966
Operating transfers out	(490,868)	(586,595)	(3,454,302)	(2,806,966)
Other financing uses	(2,763)	(4,701)	(21,016)	(917)
<b>Total Other Financing Sources (Uses)</b>	<b>272</b>	<b>(4,701)</b>	<b>(17,516)</b>	<b>7,734</b>
<b>Net Change in Fund Balances</b>	<b>(69,729)</b>	<b>(41,204)</b>	<b>1,087,451</b>	<b>1,602,126</b>
<b>Fund Balances:</b>				
Beginning	8,945,042	8,966,525	7,890,339	6,288,141
Prior period adjustments				1,830
Beginning, as restated	8,945,042	8,966,525	7,890,339	6,289,971
Increase (Decrease) in reserve for inventory	(15,680)	19,721	(11,265)	(1,758)
<b>Ending</b>	<b>\$ 8,859,633</b>	<b>8,945,042</b>	<b>8,966,525</b>	<b>7,890,339</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

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

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, 2008, which collectively comprise the Marshall County School District's basic financial statements and have issued our report thereon dated April 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-01, 2008-02 and 2008-03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

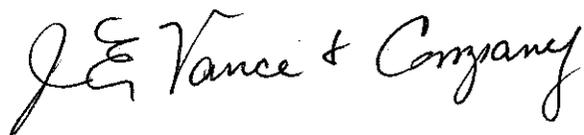
### Compliance and Other Matters

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Marshall County School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Marshall County School District's responses and, accordingly, we express no opinion on them.

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

Tupelo, Mississippi  
April 20, 2009



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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, 2008. The Marshall County 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, 2008.

## 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Tupelo, Mississippi  
April 20, 2009

*J. E. Vance & Company*

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

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

Superintendent and School Board  
Marshall County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2008, which collectively comprise Marshall County School District's basic financial statements and have issued our report thereon dated April 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to 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 \$19,446 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann.(1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

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

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

Tupelo, Mississippi  
April 20, 2009

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**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 identified?  | No          |
| b. Significant deficiency identified that are not considered to be material weaknesses? | Yes         |

**Federal Awards:**

- |   |             |
|---|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs:              | Unqualified |
| 5. Internal control over major programs:  |             |
| a. Material weakness identified?  | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No          |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133?  | No          |
| 7. Federal programs identified as major programs:   |             |
| a. Cluster: Child Nutrition   |             |
| CFDA #10.553  |             |
| CFDA #10.555  |             |
| b. Cluster: Special Education   |             |
| CFDA #84.027  |             |
| CFDA #84.173  |             |

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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

c. Reading First Program

CFDA #84.357

d. Improving Teacher Quality

CFDA #84.367

- |   |            |
|---|------------|
| 8. The dollar threshold used to distinguish between type A and type B programs:   | \$300,000. |
| 9. Auditee qualified as a low-risk auditee?   | 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? | Yes        |

**Section 2: Financial Statement Findings**

Significant Deficiencies Not Considered to be a Material Weakness

2008-1

Finding:

During our review, we noted that three pre-numbered purchase orders were issued subsequent to the receipt of goods and/or services.

Recommendation:

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.

Response:

The district will prepare purchase orders for the purchase of all goods and/or services prior to the purchase and receipt of goods and/or services.

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section 2: Financial Statement Findings (Continued)**

2008-2

Finding

During our review, we noted that one invoice was overpaid due to the invoice being incorrectly footed.

Recommendation:

Controls, policies, and procedures should be in place to ensure that all invoices are properly paid.

Response:

The district will ensure that all invoices for goods and services purchased are properly calculated.

2008-3

Finding

During our review, we noted that one approved purchase order was insufficient to cover the total for the associated invoice due to the purchase order having been incorrectly footed.

Recommendation:

Controls, policies, and procedures should be in place to ensure that all invoices are properly completed and accurately calculated.

Response:

The district will ensure that all purchase orders are properly completed.

**Section 3: Federal Award Findings and Questioned Costs**

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

**MARSHALL COUNTY SCHOOL DISTRICT  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

As required by Section \_\_\_\_315(c) of OMB Circular A-133, the Marshall County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2008:

07-1

a. Name of Contact Person Responsible for Corrective Action:

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 February 2008.

07-2

a. Name of Contact Person Responsible for Corrective Action:

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 goods.

c. Anticipated Completion Date:

The district will have this corrected, beginning in February 2008.

Don Randolph  
Superintendent of Education