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MARION COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2014

MARION COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board  
Marion County School District

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the **United States of America**; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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 Marion County School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's

discussion and analysis and budgetary comparison information on pages 4-12 and 40-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the Marion County School District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC  
Jackson, Mississippi  
November 19, 2014

*Watkins Ward and Stafford, PLLC*

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

The following discussion and analysis of Marion County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

### FINANCIAL HIGHLIGHTS

- Total net position for 2014 decreased \$1,274,539, including a prior period adjustment of \$(4,740), which represents a 6% decrease from fiscal year 2013. Total net position for 2013 increased \$679,752, including a prior period adjustment of \$(67,451), which represents a 3% increase from fiscal year 2012.
- General revenues amounted to \$16,623,905 and \$16,176,979, or 76% and 74% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,264,255, or 24% of total revenues for 2014, and \$5,703,030, or 26% of total revenues for 2013.
- The District had \$23,157,959 and \$21,132,806 in expenses for fiscal years 2014 and 2013; only \$5,264,255 for 2014 and \$5,703,030 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$16,623,905 for 2014 were not adequate to provide for these programs. General revenues of \$16,176,979 for 2013 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,574,541 in revenues and \$14,684,065 in expenditures for 2014, and \$14,558,782 in revenues and \$14,142,023 in expenditures in 2013. The General Fund's fund balance decreased by \$187,422, including a prior period adjustment of \$(4,740), from 2013 to 2014, and increased by \$24,185, including a prior period adjustment of \$(70,875), from 2012 to 2013.
- Capital assets, net of accumulated depreciation, increased by \$273,037 for 2014 and decreased by \$762,992 for 2013. The increase for 2014 was due primarily to an ongoing improvement project at fiscal year end and the purchase of nine school buses and various items of furniture and equipment.
- Long-term debt decreased by \$406,780 for 2014 and increased by \$1,641,426 for 2013. The decrease for 2014 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$5,114 for 2014 and decreased by \$11,937 for 2013.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplementary information, supplementary information, and other information.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

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

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 periods.

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.

### **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** – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**Reconciliation of Government-wide and Fund Financial Statements**

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

**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 immediately following the basic financial statements.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. 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 as required by the Governmental Accounting Standards Board.

**Supplementary Information**

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

**Other Information**

Although not a required part of the basic financial statements, 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net position**

Net position may serve over time as a useful indicator of the District's financial position. Assets and deferred outflows of resources exceeded liabilities by \$20,483,020 as of June 30, 2014.

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

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.

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

**Table 1  
Condensed Statement of Net Position**

	June 30, 2014	June 30, 2013	Percentage Change
Current assets	\$ 7,058,416	\$ 6,460,946	9.25 %
Restricted assets	7,649,867	10,119,838	(24.41) %
Capital assets, net	13,817,175	13,544,138	2.02 %
<b>Total assets</b>	<b><u>28,525,458</u></b>	<b><u>30,124,922</u></b>	<b>(5.31) %</b>
<b>Deferred outflows of resources</b>	<b><u>63,679</u></b>	<b><u>60,724</u></b>	<b>4.87 %</b>
Current liabilities	227,879	143,069	59.28 %
Long-term debt outstanding	7,878,238	8,285,018	(4.91) %
<b>Total liabilities</b>	<b><u>8,106,117</u></b>	<b><u>8,428,087</u></b>	<b>(3.82) %</b>
<b>Net position:</b>			
Net investment in capital assets	8,773,854	8,106,862	8.23 %
Restricted	12,532,701	12,191,476	2.80 %
Unrestricted	(823,535)	1,459,221	(156.44) %
<b>Total net position</b>	<b><u>\$ 20,483,020</u></b>	<b><u>\$ 21,757,559</u></b>	<b>(5.86) %</b>

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

- Increase in net capital assets in the amount of \$273,037.
- The principal retirement of \$951,666 of long-term debt.

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$21,888,160 and \$21,880,009, respectively. The total cost of all programs and services was \$23,157,959 for 2014 and \$21,132,806 for 2013.

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Table 2**  
**Changes in Net Position**

	Year Ended June 30, 2014	Year Ended June 30, 2013	Percentage Change
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 816,278	\$ 811,019	0.65 %
Operating grants and contributions	4,447,977	4,892,011	(9.08) %
General revenues:			
Property taxes	3,628,800	3,500,119	3.68 %
Grants and contributions not restricted	11,698,664	11,733,087	(0.29) %
Investment earnings	144,110	144,770	(0.46) %
Sixteenth section sources	792,453	517,543	53.12 %
Other	359,878	281,460	27.86 %
<b>Total revenues</b>	<b>21,888,160</b>	<b>21,880,009</b>	<b>0.04 %</b>
<b>Expenses:</b>			
Instruction	10,919,769	11,443,845	(4.58) %
Support services	10,326,533	7,649,272	35.00 %
Non-instructional	1,426,498	1,425,167	0.09 %
Sixteenth section	272,989	337,515	(19.12) %
Interest on long-term liabilities	212,170	277,007	(23.41) %
<b>Total expenses</b>	<b>23,157,959</b>	<b>21,132,806</b>	<b>9.58 %</b>
<b>Increase (Decrease) in net position</b>	<b>(1,269,799)</b>	<b>747,203</b>	<b>(269.94) %</b>
<b>Net Position, July 1, as previously reported</b>	<b>21,757,559</b>	<b>21,077,807</b>	<b>3.22 %</b>
<b>Prior Period Adjustment</b>	<b>(4,740)</b>	<b>(67,451)</b>	<b>(92.97) %</b>
<b>Net Position, July 1, as restated</b>	<b>21,752,819</b>	<b>21,010,356</b>	<b>3.53 %</b>
<b>Net Position, June 30</b>	<b>\$ 20,483,020</b>	<b>\$ 21,757,559</b>	<b>(5.86) %</b>

**Governmental activities**

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

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**Table 3**  
**Net Cost of Governmental Activities**

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>	
Instruction	\$ 10,919,769	\$ 11,443,845	(4.58) %
Support services	10,326,533	7,649,272	35.00 %
Non-instructional	1,426,498	1,425,167	0.09 %
Sixteenth section	272,989	337,515	(19.12) %
Interest on long-term liabilities	212,170	277,007	(23.41) %
<b>Total expenses</b>	<b>\$ 23,157,959</b>	<b>\$ 21,132,806</b>	<b>9.58 %</b>

  

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>	
Instruction	\$ (8,797,122)	\$ (8,871,663)	(0.84) %
Support services	(8,950,347)	(6,231,591)	43.63 %
Non-instructional	254,953	254,478	0.19 %
Sixteenth section	(189,018)	(303,993)	(37.82) %
Interest on long-term liabilities	(212,170)	(277,007)	(23.41) %
<b>Total net (expense) revenue</b>	<b>\$ (17,893,704)</b>	<b>\$ (15,429,776)</b>	<b>15.97 %</b>

- Net cost of governmental activities (\$17,893,704 for 2014 and \$15,429,776 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$3,628,800 for 2014 and \$3,500,119 for 2013) and state and federal revenues (\$11,698,664 for 2014 and \$11,733,087 for 2013). In addition, there was \$792,453 and \$517,543 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$144,110 for 2014 and \$144,770 for 2013.

**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, unassigned 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 \$14,525,838, a decrease of \$1,985,295, which includes a prior period adjustment of \$(4,740) and an increase in inventory of \$11,654. \$1,474,542, or 10%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$13,051,296, or 90%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$187,422, which includes a prior period adjustment of \$(4,740). The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,885,163, which includes an increase in inventory of \$11,654. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Sixteenth Section Interest Fund	\$ 1,023
Sixteenth Section Principal Fund	\$ 86,267

### BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. 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. Budget revisions during the fiscal year were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

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

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2014, the District's total capital assets were \$25,925,605, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles, furniture and equipment, and leased property under capital leases. This amount represents a gross increase of \$877,781 from 2013. During the fiscal year, the District purchased nine school buses and various items of furniture and equipment and began the installation of camera systems at various school facilities. Total accumulated depreciation as of June 30, 2014, was \$12,108,430, and total depreciation expense for the year was \$821,050, resulting in total net capital assets of \$13,817,175.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 144,269	\$ 144,269	0.00 %
Construction in Progress	265,653	-	N/A %
Buildings	8,388,352	8,633,083	(2.83) %
Building improvements	762,265	803,716	(5.16) %
Improvements other than buildings	338,873	350,004	(3.18) %
Mobile equipment	1,341,624	810,710	65.49 %
Furniture and equipment	296,473	370,712	(20.03) %
Leased property under capital leases	2,279,666	2,431,644	(6.25) %
<b>Total</b>	<b>\$ 13,817,175</b>	<b>\$ 13,544,138</b>	<b>2.02 %</b>

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

MARION COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014

**Debt Administration.** At June 30, 2014, the District had \$7,878,238 in outstanding long-term debt, of which \$886,562 is due within one year. During the fiscal year, the District received proceeds from the issuance of qualified school construction bonds in the amount of \$500,000. The District also issued refunding bonds and notes totaling \$3,035,000, in which the proceeds were used to refund certain limited obligation bonds, certificates of participation and three mill notes totaling \$2,985,000. The District made principal payments totaling \$951,666 on outstanding long-term debt. The liability for compensated absences decreased \$5,114 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

	June 30, 2014	June 30, 2013	Percentage Change
Limited obligation refunding bonds payable	\$ 1,957,000	\$ 2,277,000	(14.05) %
Certificates of participation payable	-	395,000	(100.00) %
Refunding bonds payable	330,000	-	N/A %
Three mill notes payable	595,000	661,000	(9.98) %
Shortfall notes payable	-	110,666	(100.00) %
Lease refunding bonds payable	1,825,000	2,165,000	(15.70) %
Qualified school construction bonds payable	3,000,000	2,500,000	20.00 %
Compensated absences payable	171,238	176,352	(2.90) %
<b>Total</b>	<b>\$ 7,878,238</b>	<b>\$ 8,285,018</b>	<b>(4.91) %</b>

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

### CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting, and internal financial controls is 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 revenues.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Marion County School District, 1010 Highway 13 North, Suite 2, Columbia, MS 39429.

FINANCIAL STATEMENTS

MARION COUNTY SCHOOL DISTRICT

Statement of Net Position  
June 30, 2014

Exhibit A

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 6,133,811
Due from other governments	877,518
Inventories	47,087
Restricted assets	7,649,867
Capital assets, non-depreciable:	
Land	144,269
Construction in progress	265,653
Capital assets, net of accumulated depreciation:	
Buildings	8,388,352
Building improvements	762,265
Improvements other than buildings	338,873
Mobile equipment	1,341,624
Furniture and equipment	296,473
Leased property under capital leases	2,279,666
Total Assets	<u>28,525,458</u>
 <b>Deferred Outflows of Resources</b>	
Deferred outflow from advance refunding of debt	<u>63,679</u>
Total Deferred Outflows of Resources	<u>63,679</u>
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	182,445
Interest payable on long-term liabilities	45,434
Long-term liabilities, due within one year:	
Capital related liabilities	878,000
Non-capital related liabilities	8,562
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,229,000
Non-capital related liabilities	2,762,676
Total Liabilities	<u>8,106,117</u>
 <b>Net Position</b>	
Net investment in capital assets	8,773,854
Restricted for:	
Expendable:	
School-based activities	2,830,839
Debt service	745,045
Forestry improvements	71,218
Unemployment benefits	75,000
Non-expendable:	
Sixteenth section	8,810,599
Unrestricted	<u>(823,535)</u>
Total Net Position	<u>\$ 20,483,020</u>

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

**Marion County School District**

**Statement of Activities  
For the Year Ended June 30, 2014**

**Exhibit B**

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Net (Expense) Revenue and Changes in Net Position
Instruction	\$ 10,919,769	\$ 399,021	\$ 1,723,626	\$ -	\$ (8,797,122)
Support services	10,326,533	-	1,376,186	-	(8,950,347)
Non-instructional	1,426,498	333,286	1,348,165	-	254,953
Sixteenth section	272,989	83,971	-	-	(189,018)
Interest on long-term liabilities	212,170	-	-	-	(212,170)
<b>Total Governmental Activities</b>	<b>\$ 23,157,959</b>	<b>\$ 816,278</b>	<b>\$ 4,447,977</b>	<b>\$ -</b>	<b>\$ (17,893,704)</b>

General Revenues:

Taxes:

General purpose levies 3,459,324

Debt purpose levies 169,476

Unrestricted grants and contributions:

State 11,606,403

Federal 92,261

Unrestricted investment earnings 144,110

Sixteenth section sources 792,453

Other 359,878

Total General Revenues 16,623,905

Change in Net Position (1,269,799)

Net Position - Beginning, as previously reported 21,757,559

Prior Period Adjustments (4,740)

Net Position - Beginning, as restated 21,752,819

Net Position - Ending \$ 20,483,020

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

MARION COUNTY SCHOOL DISTRICT  
Governmental Funds

Exhibit C

Balance Sheet  
June 30, 2014

	Major Funds				Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
<b>Assets</b>					
Cash and cash equivalents	\$ 2,890,178	\$ 2,303,346	\$ 6,998,946	\$ 1,305,646	\$ 13,498,116
Cash with fiscal agents	-	-	-	284,908	284,908
Investments	-	-	654	-	654
Due from other governments	223,861	-	-	653,657	877,518
Due from other funds	434,442	-	-	-	434,442
Advance to other funds	-	-	1,857,621	-	1,857,621
Inventories	-	-	-	47,087	47,087
<b>Total assets</b>	<b>\$ 3,548,481</b>	<b>\$ 2,303,346</b>	<b>\$ 8,857,221</b>	<b>\$ 2,291,298</b>	<b>\$ 17,000,346</b>

Liabilities and Fund Balances

<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 52,969	\$ 561	\$ 46,622	\$ 82,293	\$ 182,445
Due to other funds	-	-	-	434,442	434,442
Advances from other funds	1,857,621	-	-	-	1,857,621
<b>Total Liabilities</b>	<b>1,910,590</b>	<b>561</b>	<b>46,622</b>	<b>516,735</b>	<b>2,474,508</b>

Fund Balances:

<b>Nonspendable:</b>					
Inventory	-	-	-	47,087	47,087
Permanent fund principal	-	-	6,952,978	-	6,952,978
Advances	-	-	1,857,621	-	1,857,621
<b>Restricted:</b>					
Debt service	-	-	-	790,479	790,479
Improvements and renovations	-	-	-	309,812	309,812
Forestry improvement purposes	-	-	-	71,218	71,218
Unemployment benefits	-	-	-	75,000	75,000
Child Nutrition	-	-	-	480,520	480,520
Sixteenth section interest	-	2,302,785	-	-	2,302,785
Other purposes	-	-	-	447	447
<b>Assigned:</b>					
Activity funds	163,349	-	-	-	163,349
<b>Unassigned</b>	<b>1,474,542</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,474,542</b>
<b>Total Fund Balances</b>	<b>1,637,891</b>	<b>2,302,785</b>	<b>8,810,599</b>	<b>1,774,563</b>	<b>14,525,838</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,548,481</b>	<b>\$ 2,303,346</b>	<b>\$ 8,857,221</b>	<b>\$ 2,291,298</b>	<b>\$ 17,000,346</b>

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

**MARION COUNTY SCHOOL DISTRICT  
Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2014**

**Exhibit C-1**

**Total fund balances for governmental funds** **\$ 14,525,838**

Amounts reported for governmental activities in the statement of Net Position are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	144,269	
Construction in Progress		265,653	
Buildings		14,252,125	
Building improvements		1,036,280	
Improvements other than buildings		873,290	
Mobile equipment		3,788,331	
Furniture and equipment		1,766,213	
Leased property under capital leases		3,799,444	
Accumulated depreciation		<u>(12,108,430)</u>	13,817,175

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation bonds		(1,957,000)	
Other bonds payable		(5,155,000)	
Notes payable		(595,000)	
Compensated absences		(171,238)	
Deferred outflow from refunding of debt		63,679	
Accrued interest payable		<u>(45,434)</u>	(7,859,993)

**Net Position of governmental activities** **\$ 20,483,020**

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

MARION COUNTY SCHOOL DISTRICT  
 Governmental Funds  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
 For the Year Ended June 30, 2014

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
<b>Revenues:</b>					
Local sources	\$ 3,588,024	\$ -	\$ -	\$ 1,161,610	\$ 4,749,634
State sources	10,894,256	-	-	1,420,988	12,315,244
Federal sources	92,261	-	-	3,739,779	3,832,040
Sixteenth section sources	-	700,387	206,550	84,305	991,242
Total Revenues	14,574,541	700,387	206,550	6,406,682	21,888,160
<b>Expenditures:</b>					
Instruction	7,930,415	-	-	2,719,598	10,650,013
Support services	6,627,393	-	-	3,971,767	10,599,160
Noninstructional services	-	-	-	1,437,023	1,437,023
Sixteenth section	57,968	146,125	22,522	46,374	272,989
Facilities acquisition and construction	-	-	-	265,653	265,653
Debt service:					
Principal	-	-	-	951,666	951,666
Interest	49,039	-	-	116,086	165,125
Other	19,250	-	-	42,807	62,057
Total Expenditures	14,684,065	146,125	22,522	9,550,974	24,403,686
Excess (Deficiency) of Revenues over (under) Expenditures	(109,524)	554,262	184,028	(3,144,292)	(2,515,526)
<b>Other Financing Sources (Uses):</b>					
Bonds and notes issued	-	-	-	500,000	500,000
Refunding bonds and notes issued	-	-	-	3,035,000	3,035,000
Payments held by escrow agent	-	-	-	80,000	80,000
Payment to refunded bond escrow agent	-	-	-	(3,000,927)	(3,000,927)
Payment to QSCB debt escrow agent	-	-	-	(80,000)	(80,000)
Sale of transportation equipment	10,208	-	-	-	10,208
Sale of other property	2,212	-	-	-	2,212
Operating transfers in	745,490	97,761	-	808,892	1,652,143
Operating transfers out	(807,892)	(651,000)	(97,761)	(95,490)	(1,652,143)
Other financing uses	(23,176)	-	-	-	(23,176)
Total Other Financing Sources (Uses)	(73,158)	(553,239)	(97,761)	1,247,475	523,317
Net Change in Fund Balances	(182,682)	1,023	86,267	(1,896,817)	(1,992,209)
Fund Balances:					
July 1, 2013, as previously reported	1,825,313	2,301,762	8,724,332	3,659,726	16,511,133
Prior period adjustments	(4,740)	-	-	-	(4,740)
July 1, 2013, as restated	1,820,573	2,301,762	8,724,332	3,659,726	16,506,393
Increase (Decrease) in inventory	-	-	-	11,654	11,654
June 30, 2014	\$ 1,637,891	\$ 2,302,785	\$ 8,810,599	\$ 1,774,563	\$ 14,525,838

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

**MARION COUNTY SCHOOL DISTRICT**  
**Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2014**

Exhibit D-1

**Net change in fund balances - total governmental funds** **\$ (1,992,209)**

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,113,766	
Depreciation expense	<u>(821,050)</u>	292,716

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (19,679)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(500,000)	
Refunding bonds and notes issued	(3,035,000)	
Payments of debt principal	951,666	
Payments to refunded bond escrow agent	3,000,927	
Accrued interest payable	<u>27,984</u>	445,577

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	5,114	
Change in inventory	11,654	
Amortization of deferred outflow	<u>(12,972)</u>	3,796

**Change in Net Position of governmental activities** **\$ (1,269,799)**

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

**MARION COUNTY SCHOOL DISTRICT  
Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities  
June 30, 2014**

**Exhibit E**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 972,269
Total Assets	<u>\$ 972,269</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 887,288
Due to student clubs	<u>84,981</u>
Total Liabilities	<u>\$ 972,269</u>

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

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

**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 is elected by the citizens of each defined county district.

For financial reporting purposes, Marion 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.

Blended component unit

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

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 13).

**B. Government-wide and Fund Financial Statements**

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

**General Fund** - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

**Sixteenth Section Interest Fund** - This special revenue fund accounts for expendable revenues derived from the use of sixteenth section lands held in trust by the school district and from investment of sixteenth section funds.

**Sixteenth Section Principal Fund** - This permanent fund accounts for resources from sixteenth section lands that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

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 (agency funds) which focus on assets and liabilities only. The District's fiduciary funds include the following:

**Payroll Clearing Fund** - This fund is used as a clearing fund for payroll type transactions.

**Student Club Funds** - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

**Accounts Payable Clearing Fund** - This fund is used as a clearing fund for non-payroll type transactions.

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Funds - Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

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, Basis of Accounting, and Financial Statement Presentation**

In the government-wide Statement of Net Position 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 taxes, 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.

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

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

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 is both restricted and unrestricted net position 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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 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.

**D. Encumbrances**

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

**E. Assets, liabilities, deferred outflows/inflows, and net position/fund balances**

**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.

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund 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.

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 Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. 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 fund. In addition, unspent proceeds from the issuance of long-term debt reported as cash and cash equivalents is classified as restricted assets because the funds are to be spent for specific purposes outlined in resolutions approved by the board, bond documentation, etc.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. 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

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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 the capitalization thresholds:

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

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow from advance refunding of debt. See Note 15 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There are no deferred inflows presented by the school district.

8. 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 a long-term liability in the government-wide statements. The current portion of this liability is estimated based on

MARION COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. 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 6 for details.

10. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

*Nonspendable fund balance* includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Assigned fund balance* includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and the Business Manager pursuant to authorization established by the District's approved fund balance policy.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 10% of general revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

**Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments**

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's 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 excess 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 deposit or 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (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 other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of 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 \$13,498,116 and \$972,269, respectively. The carrying amount of deposits in the government-wide financial statements was reported as cash and cash equivalents of \$6,133,811 and a portion of restricted assets in the amount of \$7,364,305 (see Note 4). The bank balance was \$15,942,999.

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*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 institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2014, none of the district's bank balance of \$15,942,999 was exposed to custodial credit risk.

**Cash with Fiscal Agents**

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$284,908.

**Investments**

As of June 30, 2014, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Governmental National Mortgage Association	Not Rated	More than 10 years	\$ 654
<b>Total</b>			<b>\$ 654</b>

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2014, the district did not have any investments to which this would apply.

*Concentration of Credit Risk.* Disclosure 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 – Inter-fund Receivables, Payables and Transfers**

The following is a summary of inter-fund transactions and balances:

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

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 434,442
<b>Total</b>		<b>\$ 434,442</b>

The primary purpose of the interfund balances is to eliminate deficit cash balances in certain special revenue funds caused by negative federal award program cash flows.

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**B. Advances To/From Other Funds**

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 1,857,621
Total		<u>\$ 1,857,621</u>

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 229,769	\$ 74,305	\$ 304,074
2016	238,960	65,114	304,074
2017	188,982	55,555	244,537
2018	196,541	47,996	244,537
2019	175,457	40,135	215,592
2020 - 2024	827,912	94,951	922,863
Total	<u>\$ 1,857,621</u>	<u>\$ 378,056</u>	<u>\$ 2,235,677</u>

**C. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 807,892
Sixteenth Section Interest Fund	General Fund	650,000
	Other governmental funds	1,000
Sixteenth Section Principal Fund	Sixteenth Section Interest Fund	97,761
Other governmental funds	General Fund	95,490
Total		<u>\$ 1,652,143</u>

Operating transfers were primarily for the following: indirect cost transfers, vocational and special education expenditure transfers, the transfer of expendable sixteenth section sources, debt service transfers, unemployment compensation transfers, and other routine operating transfers.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance and investment balance, totaling \$6,998,946 and \$654, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and

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may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash with fiscal agent balance totaling \$204,908 of the MAEP Retirement Fund. Restricted assets also represent the cash with fiscal agent balance totaling \$80,000 of the QSCB Bond Retirement Fund. The restricted assets also include the cash balance totaling \$365,359 of the QSCB Construction Funds resulting from unspent proceeds of long-term debt.

**Note 5 – Capital Assets**

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

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
<b>Governmental Activities:</b>				
<u>Non-depreciable capital assets:</u>				
Land	\$ 144,269			\$ 144,269
Construction-in-progress		265,653		265,653
Total non-depreciable capital assets	144,269	265,653	-	409,922
<u>Depreciable capital assets:</u>				
Buildings	14,252,125			14,252,125
Building improvements	1,036,280			1,036,280
Improvements other than buildings	873,290			873,290
Mobile equipment	3,191,416	789,350	192,435	3,788,331
Furniture and equipment	1,751,000	58,763	43,550	1,766,213
Leased property under capital leases	3,799,444			3,799,444
Total depreciable capital assets	24,903,555	848,113	235,985	25,515,683
<u>Less accumulated depreciation for:</u>				
Buildings	5,619,042	244,731		5,863,773
Building improvements	232,564	41,451		274,015
Improvements other than buildings	523,286	11,131		534,417
Mobile equipment	2,380,706	239,192	173,191	2,446,707
Furniture and equipment	1,380,288	132,567	43,115	1,469,740
Leased property under capital leases	1,367,800	151,978		1,519,778
Total accumulated depreciation	11,503,686	821,050	216,306	12,108,430
Total depreciable capital assets, net	13,399,869	27,063	19,679	13,407,253
Governmental activities capital assets, net	\$ 13,544,138	\$ 292,716	\$ 19,679	\$ 13,817,175

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 257,012
Support services	536,092
Non-instructional	27,946
Total depreciation expense - Governmental activities	\$ 821,050

Construction in progress is composed of:

	Spent to June 30, 2014	Remaining Commitment
<b>Governmental Activities:</b>		
Camera systems	\$ 265,653	\$ 139,201
Total governmental activities	265,653	139,201

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Construction projects included in governmental activities are funded with proceeds from the issuance of Qualified School Construction Bonds.

**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2013	Additions	Reductions	Refunding Adjustment s	Balance 6/30/2014	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 2,277,000	\$ 1,957,000	\$ 348,000	\$ (1,929,000)	\$ 1,957,000	\$ 375,000
B. Certificates of participation payable	395,000			(395,000)	-	-
C. Refunding bonds payable	-	403,000	73,000		330,000	81,000
D. Three mill notes payable	661,000	675,000	80,000	(661,000)	595,000	77,000
E. Shortfall notes payable	110,666		110,666		-	-
F. Lease refunding bonds payable	2,165,000		340,000		1,825,000	345,000
G. Qualified school construction bonds payable	2,500,000	500,000			3,000,000	-
H. Compensated absences payable	176,352		5,114		171,238	8,562
Total	<u>\$ 8,285,018</u>	<u>\$ 3,535,000</u>	<u>\$ 956,780</u>	<u>\$ (2,985,000)</u>	<u>\$ 7,878,238</u>	<u>\$ 886,562</u>

**A. Limited obligation bonds payable**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding bonds, Series 2013	1.36%	9/12/2013	2/1/2018	\$ 1,957,000	\$ 1,957,000
Total				<u>\$ 1,957,000</u>	<u>\$ 1,957,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 375,000	\$ 24,065	\$ 399,065
2016	382,000	18,918	400,918
2017	389,000	13,675	402,675
2018	811,000	8,289	819,289
Total	<u>\$ 1,957,000</u>	<u>\$ 64,947</u>	<u>\$ 2,021,947</u>

This debt will be retired from the MAEP Retirement 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

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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.

Advance Refunding

On September 12, 2013, the district issued \$1,957,000 in state aid capital improvement refunding bonds with an average interest rate of 1.36% to advance refund \$1,929,000 of outstanding MAEP refunding bonds with an average interest rate of 3.35%. The net proceeds of \$1,936,360, after payments of \$20,640 for issuance costs, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the MAEP refunding bonds.

As a result, the MAEP refunding bonds are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the MAEP refunding bonds to reduce its total debt service payments over the remaining 5 years of the debt by approximately \$88,380.

**B. Certificates of participation payable**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust certificates	4.93%	6/1/1998	6/1/2018	\$ 2,620,000	\$ -
Total				\$ 2,620,000	\$ -

Advance Refunding

On January 21, 2014, the district issued \$403,000 in refunding bonds with an average interest rate of 2.13% to advance refund \$395,000 of outstanding trust certificates with an average interest rate of 4.93%. The net proceeds of \$397,705, after payments of \$5,295 for issuance costs, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the trust certificates.

As a result, the trust certificates are considered to be defeased and the liability for those certificates has been removed from long-term liabilities.

The district advance refunded the trust certificates to reduce its total debt service payments over the remaining 5 years of the debt by approximately \$21,962.

**C. Refunding bonds payable**

Debt currently outstanding is as follows:

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Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Refunding bond, Series 2014	2.13%	1/21/2014	6/1/2018	\$ 403,000	\$ 330,000
Total				<u>\$ 403,000</u>	<u>\$ 330,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 81,000	\$ 7,029	\$ 88,029
2016	83,000	5,304	88,304
2017	85,000	3,536	88,536
2018	81,000	1,725	82,725
Total	<u>\$ 330,000</u>	<u>\$ 17,594</u>	<u>\$ 347,594</u>

This debt will be retired from the Lease Debt Service Fund. Proceeds from the issuance of the refunding bond were used to provide for all future debt payment requirements on the refunded trust certificates. See Note 6.B. for further details on the refunding of the trust certificates during the fiscal year.

**D. Three mill notes payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited-tax refunding note, Series 2013	2.0%-2.4%	9/12/2013	6/15/2020	\$ 675,000	\$ 595,000
Total				<u>\$ 675,000</u>	<u>\$ 595,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 77,000	\$ 13,436	\$ 90,436
2016	78,000	11,896	89,896
2017	80,000	10,180	90,180
2018	81,000	8,420	89,420
2019	139,000	6,557	145,557
2020	140,000	3,360	143,360
Total	<u>\$ 595,000</u>	<u>\$ 53,849</u>	<u>\$ 648,849</u>

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

Advance Refunding

On September 12, 2013, the district issued \$675,000 in limited-tax refunding notes with an average interest rate of 2.2% to advance refund \$661,000 of outstanding limited-tax notes with an average interest rate of 3.67%. The net proceeds of \$666,862, after payments of \$8,138 for issuance costs, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the limited-tax notes.

As a result, the limited-tax notes are considered to be defeased and the liability for those notes has been removed from long-term liabilities.

The district advance refunded the limited-tax notes to reduce its total debt service payments over the remaining 7 years of the debt by approximately \$32,831.

**E. Shortfall notes payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note, Series 2010	2.07%	8/23/2010	8/23/2013	\$ 325,166	\$ -
Total				<u>\$ 325,166</u>	<u>\$ -</u>

This debt was fully retired during the fiscal year from the Shortfall Note Retirement Fund.

**F. Lease refunding bonds payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Lease revenue bonds, Series 2012	2.00%	8/20/2012	8/1/2018	\$ 2,165,000	\$ 1,825,000
Total				<u>\$ 2,165,000</u>	<u>\$ 1,825,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 345,000	\$ 36,500	\$ 381,500
2016	355,000	29,600	384,600
2017	365,000	22,500	387,500
2018	375,000	15,200	390,200
2019	385,000	7,700	392,700
Total	<u>\$ 1,825,000</u>	<u>\$ 111,500</u>	<u>\$ 1,936,500</u>

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

**G. Qualified school construction bonds payable**

As more fully explained in Note 14, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds	0.00%	6/18/2013	6/15/2028	\$ 2,500,000	\$ 2,500,000
Qualified school construction bonds	0.00%	12/18/2013	12/15/2023	500,000	500,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

**H. Compensated absences payable**

As more fully explained in Note 1(E)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

**Note 7 – Prior Year Defeasance of Debt**

In prior years, the Marion County School District defeased certain state aid capital improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2014, \$1,845,000 of bonds outstanding are defeased.

**Note 8 – 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 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$1,794,781.87, \$1,653,805 and \$1,456,862, respectively, which equaled the required contributions for each year.

**Note 9 – Sixteenth Section Lands**

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds

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

Year Ending June 30	Amount
2015	\$ 174,593
2016	171,552
2017	162,744
2018	80,732
2019	72,189
2020 – 2024	345,041
2025 – 2029	324,865
2030 – 2034	277,774
2035 – 2039	92,069
Thereafter	5,932
<b>Total</b>	<b>\$ 1,707,491</b>

**Note 10 – Prior Period Adjustments**

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
To adjust prior year receivable at the governmental fund level	\$ (4,740)
<b>Total</b>	<b>\$ (4,740)</b>

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

Fund	Explanation	Amount
General Fund	To adjust prior year receivable	\$ (4,740)
<b>Total</b>		<b>\$ (4,740)</b>

**Note 11 – 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.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any,

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of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

**Note 12 – Risk Management**

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

**Note 13 – Trust Certificates**

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

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

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

The trust certificates were refunded during the fiscal year with proceeds from the issuance of refunding bonds. As a result, the trust certificates are considered to be defeased and the liability for those certificates has been removed from long-term liabilities. See Note 6.B. for details regarding the refunding of the trust certificates.

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

**Note 14 – Qualified School Construction Bonds**

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

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The school district makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2014 was \$80,000. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2015	\$ 130,000
2016	130,000
2017	130,000
2018	130,000
2019	140,000
2020 – 2024	1,300,000
2025 – 2028	960,000
Total	<u>\$ 2,920,000</u>

**Note 15 – Effect of Deferred Amounts on Net Position**

The net investment in capital assets net position amount of \$8,773,854 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of school district debt. The \$63,679 balance of the deferred outflow of resources at June 30, 2014 will be recognized as an expense and decrease the net investment in capital assets net position over the next 6 years.

**Note 16 - Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Marion County School District evaluated the activity of the district through November 19, 2014, (the date the financial statements were available to be issued), and determined that there were no subsequent events that have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MARION COUNTY SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2014

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 3,606,691	\$ 3,684,948	\$ 3,588,024	\$ 78,257	\$ (96,924)
State sources	10,800,612	10,917,904	10,894,256	117,292	(23,648)
Federal sources	120,000	120,000	92,261	-	(27,739)
<b>Total Revenues</b>	<b>14,527,303</b>	<b>14,722,852</b>	<b>14,574,541</b>	<b>195,549</b>	<b>(148,311)</b>
<b>Expenditures:</b>					
Instruction	8,433,776	8,214,259	7,930,415	219,517	283,844
Support services	6,947,932	7,011,176	6,627,393	(63,244)	383,783
Sixteenth section	70,029	77,017	57,968	(6,988)	19,049
Debt service:					
Principal	497,715	-	-	497,715	-
Interest	90,053	49,039	49,039	41,014	-
Other	-	-	19,250	-	(19,250)
<b>Total Expenditures</b>	<b>16,039,505</b>	<b>15,351,491</b>	<b>14,684,065</b>	<b>688,014</b>	<b>667,426</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(1,512,202)	(628,639)	(109,524)	883,563	519,115
<b>Other Financing Sources (Uses):</b>					
Bonds and notes issued	789,350	-	-	(789,350)	-
Sale of transportation equipment	-	10,208	10,208	10,208	-
Sale of other property	-	2,212	2,212	2,212	-
Operating transfers in	2,494,485	3,147,432	745,490	652,947	(2,401,942)
Operating transfers out	(2,770,263)	(3,263,825)	(807,892)	(493,562)	2,455,933
Other financing uses	-	(23,176)	(23,176)	(23,176)	-
<b>Total Other Financing Sources (Uses)</b>	<b>513,572</b>	<b>(127,149)</b>	<b>(73,158)</b>	<b>(640,721)</b>	<b>53,991</b>
<b>Net Change in Fund Balances</b>	<b>(998,630)</b>	<b>(755,788)</b>	<b>(182,682)</b>	<b>242,842</b>	<b>573,106</b>
<b>Fund Balances:</b>					
July 1, 2013, as previously reported	1,651,000	1,825,313	1,825,313	174,313	-
Prior period adjustments	-	(4,740)	(4,740)	(4,740)	-
July 1, 2013, as restated	1,651,000	1,820,573	1,820,573	169,573	-
June 30, 2014	\$ 652,370	\$ 1,064,785	\$ 1,637,891	\$ 412,415	\$ 573,106

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

MARION COUNTY SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2014

**Budgetary Comparison Schedule  
Sixteenth Section Interest Fund  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Sixteenth section sources	\$ 411,430	\$ 700,387	\$ 700,387	\$ 288,957	\$ -
Total Revenues	411,430	700,387	700,387	288,957	-
<b>Expenditures:</b>					
Sixteenth section	149,023	146,125	146,125	2,898	-
Total Expenditures	149,023	146,125	146,125	2,898	-
Excess (Deficiency) of Revenues over (under) Expenditures	262,407	554,262	554,262	291,855	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	198,060	299,074	299,074	101,014	-
Operating transfers out	(113,926)	(852,313)	(852,313)	(738,387)	-
Total Other Financing Sources (Uses)	84,134	(553,239)	(553,239)	(637,373)	-
Net Change in Fund Balances	346,541	1,023	1,023	(345,518)	-
<b>Fund Balances:</b>					
July 1, 2013	-	2,301,762	2,301,762	2,301,762	-
June 30, 2014	\$ 346,541	\$ 2,302,785	\$ 2,302,785	\$ 1,956,244	\$ -

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

MARION COUNTY SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2014

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before 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

**MARION COUNTY SCHOOL DISTRICT  
Supplemental Information**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 394,209
National school lunch program	10.555	894,225
Total child nutrition cluster		1,288,434
Total passed-through Mississippi Department of Education		1,288,434
Total U.S. Department of Agriculture		1,288,434
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	89,374
Total Federal Communications Commission		89,374
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,277,364
Career and technical education - basic grants to states	84.048	66,106
Rural education	84.358	50,098
Improving teacher quality state grants	84.367	271,139
Subtotal		1,664,707
Special education cluster:		
Special education - grants to states	84.027	549,570
Special education - preschool grants	84.173	35,753
Total special education cluster		585,323
Total passed-through Mississippi Department of Education		2,250,030
Total U.S. Department of Education		2,250,030
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	2,887
Total passed-through Mississippi Department of Education		2,887
Total U.S. Department of Health and Human Services		2,887
Total for All Federal Awards		\$ 3,630,725

**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.

**MARION COUNTY SCHOOL DISTRICT  
Supplemental Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
For the Year Ended June 30, 2014**

<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	\$ 15,725,703	11,807,061	816,181	924,812	2,177,649
Other	8,677,983	1,193,003	202,259	27,692	7,255,029
Total	<u>\$ 24,403,686</u>	<u>13,000,064</u>	<u>1,018,440</u>	<u>952,504</u>	<u>9,432,678</u>
Total number of students *	<u>2,125</u>				
Cost per student	<u>\$ 11,484</u>	<u>6,118</u>	<u>479</u>	<u>448</u>	<u>4,439</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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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 INFORMATION

**MARION COUNTY SCHOOL DISTRICT**  
Other Information

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**General Fund**

**Last Four Years**

**UNAUDITED**

	2014	2013*	2012*	2011*
<b>Revenues:</b>				
Local sources	\$ 3,588,024	\$ 3,612,442	\$ 3,660,967	\$ 3,324,678
State sources	10,894,256	10,813,365	10,939,114	10,901,828
Federal sources	92,261	132,975	282,367	151,990
<b>Total Revenues</b>	<b>14,574,541</b>	<b>14,558,782</b>	<b>14,882,448</b>	<b>14,378,496</b>
<b>Expenditures:</b>				
Instruction	7,930,415	8,219,324	8,149,028	6,785,983
Support services	6,627,393	5,387,997	5,361,182	5,181,704
Noninstructional services	-	118	47,802	
Sixteenth Section	57,968	61,078		
Facilities acquisition and construction			37,598	181,978
Debt Service:				
Principal	-	266,637	251,281	236,758
Interest	49,039	179,552	200,344	220,080
Other	19,250	27,317		
<b>Total Expenditures</b>	<b>14,684,065</b>	<b>14,142,023</b>	<b>14,047,235</b>	<b>12,606,503</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(109,524)	416,759	835,213	1,771,993
<b>Other Financing Sources (Uses):</b>				
Insurance recovery	-	5,307		74,111
Bonds and Notes issued				325,166
Refunding bonds issued	-	2,165,000		
Payment to lessor for refunding of lease purchase	-	(2,135,678)		
Sale of transportation equipment	10,208	8,933		
Sale of other property	2,212	2,566		
Operating transfers in	745,490	79,537	67,472	93,936
Operating transfers out	(807,892)	(447,364)	(517,426)	(456,739)
Other financing sources	(23,176)			(9,615)
<b>Total Other Financing Sources (Uses)</b>	<b>(73,158)</b>	<b>(321,699)</b>	<b>(449,954)</b>	<b>26,859</b>
<b>Net Change in Fund Balances</b>	<b>(182,682)</b>	<b>95,060</b>	<b>385,259</b>	<b>1,798,852</b>
<b>Fund Balances:</b>				
Beginning of period, as originally reported	1,825,313	1,801,128	1,415,869	(382,983)
Prior Period adjustments	(4,740)	(70,875)		
Beginning of period, restated	1,820,573	1,730,253	1,415,869	(382,983)
<b>End of Period</b>	<b>\$ 1,637,891</b>	<b>\$ 1,825,313</b>	<b>\$ 1,801,128</b>	<b>\$ 1,415,869</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**MARION COUNTY SCHOOL DISTRICT**  
**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**Last Four Years**  
**UNAUDITED**

	2014	2013*	2012*	2011*
<b>Revenues:</b>				
Local sources	\$ 4,749,634	\$ 4,576,565	\$ 4,752,647	\$ 4,574,057
State sources	12,315,244	12,288,486	12,515,464	12,443,900
Federal sources	3,832,040	4,337,381	4,843,314	6,240,655
Sixteenth section sources	991,242	662,576	708,164	1,031,065
<b>Total Revenues</b>	<b>21,888,160</b>	<b>21,865,008</b>	<b>22,819,589</b>	<b>24,289,677</b>
<b>Expenditures:</b>				
Instruction	10,650,013	11,208,377	11,471,852	11,412,623
Support services	10,599,160	7,131,435	7,227,377	7,378,754
Noninstructional services	1,437,023	1,420,876	1,527,174	1,455,949
Sixteenth section	272,989	337,515	221,484	402,819
Facilities acquisition and construction	265,653		37,598	181,978
Debt service:				
Principal	951,666	946,804	906,603	764,108
Interest	165,125	319,797	364,464	396,227
Other	62,057	28,317		1,000
<b>Total Expenditures</b>	<b>24,403,686</b>	<b>21,393,121</b>	<b>21,756,552</b>	<b>21,993,458</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(2,515,526)	471,887	1,063,037	2,296,219
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued	500,000	2,500,000		325,166
Insurance recovery	-	5,307		74,111
Refunding bonds and notes issued	3,035,000	2,165,000		
Payment to lessor for refunding lease purchase	-	(2,135,678)		
Payment held by escrow agent	80,000			
Payment to refunded bond escrow agent	(3,000,927)			
Payment to QSCB debt escrow agent	(80,000)			
Sale of transportation equipment	10,208	8,933		
Sale of other property	2,212	4,170		
Operating transfers in	1,652,143	852,915	1,124,245	1,163,411
Operating transfers out	(1,652,143)	(852,915)	(1,124,245)	(1,163,411)
Other financing sources	(23,176)			(9,615)
<b>Total Other Financing Sources (Uses)</b>	<b>523,317</b>	<b>2,547,732</b>	<b>0</b>	<b>389,662</b>
<b>Net Change in Fund Balances</b>	<b>(1,992,209)</b>	<b>3,019,619</b>	<b>1,063,037</b>	<b>2,685,881</b>
<b>Fund Balances:</b>				
Beginning of period, as originally reported	16,511,133	13,568,915	12,506,045	9,814,811
Prior period adjustments	(4,740)	(70,875)		
Beginning of period, restated	16,506,393	13,498,040	12,506,045	9,814,811
Increase (Decrease) in reserve for inventory	11,654	(6,526)	(167)	5,353
<b>End of Period</b>	<b>\$ 14,525,838</b>	<b>16,511,133</b>	<b>13,568,915</b>	<b>\$ 12,506,045</b>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



**WATKINS, WARD AND STAFFORD**

Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Aubrey R. Holder, CPA  
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John N. Russell, CPA  
Thomas A. Davis, CPA  
Anita L. Goodrum, CPA  
Ricky D. Allen, CPA  
Jason D. Brooks, CPA  
Robert E. Cordle, CPA  
Perry C. Rackley, Jr., CPA

INDEPENDENT AUDITOR'S 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  
Marion County School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements, and have issued our report thereon dated November 19, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Marion County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Marion County School District's internal control. A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Marion County School District's financial statements are free from 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*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal

control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins, Ward, and Stafford, PLLC  
Jackson, Mississippi  
November 19, 2014

*Watkins Ward and Stafford, PLLC*



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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Superintendent and School Board  
Marion County School District

**Report on Compliance for Each Major Federal Program**

We have audited Marion County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Marion County School District's major federal programs for the year ended June 30, 2014. Marion County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Marion County School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Marion County 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Marion County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Marion County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of Marion County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marion County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Marion County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Watkins, Ward, and Stafford, PLLC  
Jackson, Mississippi  
November 19, 2014

*Watkins Ward and Stafford, P.C.*

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



**WATKINS, WARD AND STAFFORD**

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James L. Stafford, CPA  
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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board  
Marion County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2014, which collectively comprise Marion County School District's basic financial statements and have issued our report thereon dated November 19, 2014. 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 a zero balance 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.

Watkins, Ward, and Stafford, PLLC  
Jackson, Mississippi  
November 19, 2014

*Watkins Ward and Stafford, PLLC*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARION COUNTY SCHOOL DISTRICT  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements:

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditor's report issued:                      | Unmodified    |
| 2. | Internal control over financial reporting:            |               |
|    | a. Material weaknesses identified?                    | No            |
|    | b. Significant deficiencies identified?               | None reported |
| 3. | Noncompliance material to financial statements noted? | No            |

Federal Awards:

- |    |  |               |
|----|--|---------------|
| 4. | Internal control over major programs:  |               |
|    | a. Material weakness identified?   | No            |
|    | b. Significant deficiency identified?  | None reported |
| 5. | Type of auditor's report issued on compliance for major programs:  | Unmodified    |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | None reported |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Cluster
10.553; 10.555	Child Nutrition Cluster

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

MARION COUNTY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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