



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

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MADISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2003

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

MADISON COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Madison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Madison County School District as of and for the year ended June 30, 2003, which collectively comprise the Madison County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Madison County School District, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the district implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

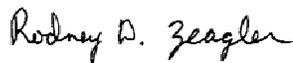
In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2004, on our consideration of the Madison County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedule and corresponding notes on pages 51 and 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

August 17, 2004

MADISON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON COUNTY SCHOOL DISTRICT

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Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

The discussion and analysis of Madison County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The School District has elected not to present comparative data.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$12,070,230, which represents a 44% increase from fiscal year 2002. This increase is partially a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. The district's advalorem receipts were also greater than expected. The district also sold land during the fiscal year that generated proceeds of \$1,881,000, resulting in a gain of \$858,810.
- General revenues account for \$60,359,244 in revenue, or 85% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,535,071, or 15% of total revenues.
- The District had \$60,153,931 in expenses; only \$10,535,071 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$60,359,244 were adequate to provide for these programs.
- Among major funds, the General Fund had \$48,237,561 in revenues and \$43,845,187 in expenditures. The General Fund's fund balance increased \$5,213,955 over the prior year. This increase is partially a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. The district's advalorem receipts were also greater than expected. The district also sold land during the fiscal year that generated proceeds of \$1,881,000, resulting in a gain of \$858,810.

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

- Capital assets, net of accumulated depreciation, increased by \$3,659,651. Transactions that had a significant effect on capital assets during the fiscal year include: 1) the addition to construction in progress in the amount of \$7,212,982 related to the construction of new school facilities, 2) the sale of land with an original cost of \$1,022,190, and 3) the adjustment made to decrease capital assets by \$1,162,875 for asset reclassifications and the correction of prior year construction in progress that was overstated.

- Long-term debt increased by \$3,247,329. Transactions that had a significant effect on long-term debt during the fiscal year include: 1) the issuance of new debt totaling \$13,425,000 to refund old general obligation bonds and three-mill ten year notes, 2) the issuance of new debt in the amount of \$9,425,000 to provide financing for the construction of new school facilities, and 3) the repayment of long-term debt principal in the amount of \$6,015,000.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

The government-wide financial statements can be found in this report.

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

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

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

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

The basic governmental fund financial statements can be found in this report.

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

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

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 in this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found in this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$39,432,751 as of June 30, 2003.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$11,097,836 of the District's net assets (28%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$18,052,223 of the District's net assets (46%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$10,282,692 of the District's net assets (26%) reflects its unrestricted net assets.

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.

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Current assets	\$ 49,591,197
Capital assets, net	<u>90,302,115</u>
Total assets	<u>139,893,312</u>
Current liabilities	4,309,737
Long-term debt outstanding	<u>96,150,824</u>
Total liabilities	<u>100,460,561</u>
Net assets:	
Invested in capital assets, net of related debt	11,097,836
Restricted	18,052,223
Unrestricted	<u>10,282,692</u>
Total net assets	<u>\$ 39,432,751</u>

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

- The principal retirement of \$6,015,000 of long-term debt.
- The issuance of debt in the amount of \$13,425,000 for the refunding of general obligation bonds and three-mill ten year notes and the issuance of debt in the amount of \$9,425,000 to provide financing for the construction of new school facilities.
- The addition of \$7,212,982 in capital assets from the construction of new school facilities during the fiscal year.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2003 were \$71,753,125. The total cost of all programs and services was \$60,153,931. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Program revenues	\$ 10,535,071
General revenues	60,359,244
Special items	<u>858,810</u>
Total revenues	<u>71,753,125</u>

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

Expenses:	
Instruction	33,394,736
Support services	19,263,707
Non-instructional	2,692,713
Sixteenth section	114,429
Interest and other expenses on long-term liabilities	<u>4,688,346</u>
Total expenses	<u>60,153,931</u>
Increase in net assets	\$ <u>11,599,194</u>

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

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 33,394,736	\$ (27,750,907)
Support services	19,263,707	(17,461,013)
Non-instructional	2,692,713	395,835
Sixteenth section	114,429	(114,429)
Interest/expenses on long-term liabilities	<u>4,688,346</u>	<u>(4,688,346)</u>
Total expenses	<u>\$ 60,153,931</u>	<u>\$ (49,618,860)</u>

- Net cost of governmental activities (\$49,618,860), was financed by general revenue, which is made up of primarily property taxes (\$30,928,884) and state revenue (\$26,831,393).
- Investment earnings accounted for \$804,828 of funding.
- Gain on sale of capital assets accounted for \$857,881 of funding.

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$46,576,256, an increase of \$10,685,496 due primarily to proceeds of loans for the construction of new facilities and the increase in revenue from state sources received due to full funding for Mississippi Adequate Education. \$10,631,622, or 22%, of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$35,944,634 or 78%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance has been reserved for advances, inventory and prepaid items.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$5,213,955, primarily a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. The district's advalorem receipts were also greater than expected. The district also sold land during the fiscal year that generated proceeds of \$1,881,000, resulting in a gain of \$858,810. The fund balance of the 2000 \$38.16M Construction Fund decreased \$2,733,718 due to the increased expenditures relating to the construction of new school facilities. The fund balance of the 2002 \$9.43M Construction Fund increased \$9,528,241 due to the proceeds of loans received for the financing of the construction of new school facilities. The fund balance of Other Governmental Funds showed a decrease of \$1,269,502.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from state sources were increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

- Budgeted amounts for revenue from local sources were increased to reflect the increase in advalorem receipts for the fiscal year.
- Budgeted amounts for revenue and expenditures in several funds were increased to reflect the revenue received and expenditures incurred during the fiscal year. The funds were originally unbudgeted.
- Budgeted amounts for revenue in the Title I fund were decreased to reflect the revenue actually received during the fiscal year. The revenue was overstated in the original budget.
- Budgeted amounts for other financing sources/uses in several capital project and debt service funds were amended to reflect the transactions relating to the issuance of new long-term debt and the refunding of old long-term debt.
- Budgeted amounts for sixteenth section sources in one sixteenth section principal fund were increased to reflect the funds received related to the permanent easement on sixteenth section land.
- Budgeted amounts for facilities acquisition and construction expenditures in one capital project fund were decreased to reflect actual expenditures during the fiscal year and the remaining funds will be expended in subsequent fiscal years.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2003, the District's total capital assets were \$114,384,956, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents an increase of \$5,514,682 from the previous year. This net increase is due primarily to the addition to construction in progress related to current year expenditures for the construction of new school facilities and the adjustment to construction in progress to decrease the balance to correct the overstatement of construction in progress in prior year. Total accumulated depreciation as of June 30, 2003 was \$24,082,841 and total depreciation expense for the year was \$1,864,967, resulting in total net assets of \$90,302,115.

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

Madison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2003

Debt Administration. At June 30, 2003, the District had \$96,150,824 in general and limited obligation bonds and other long-term debt outstanding, of which \$5,998,139 is due within one year. During the fiscal year, the district issued bonds and notes totaling \$13,425,000 to refund old general obligation bonds and three-mill ten year notes. The district also issued notes in the amount of \$9,425,000 to provide financing for the construction of new school facilities. The district made principal payments on long-term debt during the fiscal year in the amount of \$6,015,000.

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly over the past several years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase from the previous years. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Madison County School District, P. O. Box 159, Flora, MS 39071.

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2003

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 29,030,363
Investments	14,915,971
Due from other governments	2,474,906
Inventories and prepaid items	70,772
Restricted assets	3,099,185
Capital assets, net	<u>90,302,115</u>
 Total Assets	 <u>139,893,312</u>
Liabilities	
Accounts payable and accrued liabilities	903,511
Due to other governments	2,111,430
Interest payable on long-term liabilities	1,294,796
Long-term liabilities, due within one year	
Capital related liabilities	5,985,000
Non-capital related liabilities	13,139
Long-term liabilities, due beyond one year	
Capital related liabilities	89,810,000
Non-capital related liabilities	<u>342,685</u>
 Total Liabilities	 <u>100,460,561</u>
Net Assets	
Investment in capital assets, net of related debt	11,097,836
Restricted net assets:	
Expendable:	
School-based activities	6,978,500
Debt service	8,904,574
Forestry improvements	44,717
Unemployment benefits	157,940
Non-expendable:	
Sixteenth section	1,966,492
Unrestricted	<u>10,282,692</u>
 Total Net Assets	 <u>\$ 39,432,751</u>

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

MADISON COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2003

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 33,394,736	1,178,564	3,912,567	552,698	(27,750,907)
Support services	19,263,707		1,802,694		(17,461,013)
Non-instructional	2,692,713	1,457,489	1,631,059		395,835
Sixteenth section	114,429				(114,429)
Interest on long-term liabilities	4,688,346				(4,688,346)
Total Governmental Activities	\$ 60,153,931	2,636,053	7,346,320	552,698	(49,618,860)
General Revenues:					
Taxes:					
General purpose levies 20,575,270					
Debt purpose levies 10,353,614					
Unrestricted grants and contributions:					
State 26,831,393					
Federal 177,017					
Unrestricted investment earnings 804,828					
Sixteenth section sources 1,467,254					
Other 149,868					
Total General Revenues 60,359,244					
Special items - gain from sale of land 858,810					
Total General Revenues and Special Items 61,218,054					
Change in Net Assets 11,599,194					
Net Assets - Beginning 27,362,521					
Prior period adjustments 471,036					
Net Assets - Beginning - Restated 27,833,557					
Net Assets - Ending \$ 39,432,751					

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

MADISON COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2003

Exhibit C

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	PSB Fund Project 45-27 RE Fund	2000 \$38.16M Construction Fund	2002 \$9.43M Construction Fund		
ASSETS						
Cash and cash equivalents	\$ 10,618,287	414,653	1,444,813	1,380,383	17,527,024	31,385,160
Cash with fiscal agents					416,180	416,180
Investments			6,265,893	8,147,858	830,428	15,244,179
Due from other governments	855,396	138,175			1,481,335	2,474,906
Due from other funds	1,445,703				107,737	1,553,440
Advance to other funds					126,775	126,775
Inventories and prepaid items	6,893				63,879	70,772
Total Assets	\$ 12,926,279	552,828	7,710,706	9,528,241	20,553,358	51,271,412
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 66,428		569,572		267,511	903,511
Due to other funds	2,094,561	551,770	79,712		938,827	3,664,870
Advances from other funds	126,775					126,775
Total Liabilities	2,287,764	551,770	649,284	0	1,206,338	4,695,156
Fund Balances:						
Reserved for:						
Advances					126,775	126,775
Inventory					63,879	63,879
Prepaid items	6,893					6,893
Unreserved:						
Undesignated, reported in:						
General Fund	10,631,622					10,631,622
Special Revenue Funds					5,024,077	5,024,077
Capital Projects Funds		1,058	7,061,422	9,528,241	1,966,427	18,557,148
Debt Service Funds					10,199,370	10,199,370
Permanent Funds					1,966,492	1,966,492
Total Fund Balances	10,638,515	1,058	7,061,422	9,528,241	19,347,020	46,576,256
Total Liabilities and Fund Balances	\$ 12,926,279	552,828	7,710,706	9,528,241	20,553,358	51,271,412

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

MADISON COUNTY SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2003

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 46,576,256
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$24,082,841.	90,302,115
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(96,150,824)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds	<u>(1,294,796)</u>
Total Net Assets - Governmental Activities	<u>\$ 39,432,751</u>

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

MADISON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	PSB Fund Project 45-27 RE Fund	2000 \$38.16M Construction Fund	2002 \$9.43M Construction Fund		
Revenues:						
Local sources	\$ 21,856,118	354	114,566	37,631	12,204,068	34,212,737
State sources	26,204,426	552,698			2,373,477	29,130,601
Federal sources	177,017				5,582,706	5,759,723
Sixteenth section sources					1,571,773	1,571,773
Total Revenues	48,237,561	553,052	114,566	37,631	21,732,024	70,674,834
Expenditures:						
Instruction	27,545,574				4,257,765	31,803,339
Support services	16,256,739		507,241	27,143	2,479,026	19,270,149
Noninstructional services					2,861,582	2,861,582
Sixteenth section					114,429	114,429
Facilities acquisition and construction	36,325	606,532	3,070,878		3,547,516	7,261,251
Debt service:						
Principal					6,015,000	6,015,000
Interest	6,549				4,682,441	4,688,990
Other				101,575	246,759	348,334
Total Expenditures	43,845,187	606,532	3,578,119	128,718	24,204,518	72,363,074
Excess (Deficiency) of Revenues over Expenditures	4,392,374	(53,480)	(3,463,553)	(91,087)	(2,472,494)	(1,688,240)
Other Financing Sources (Uses):						
Proceeds of refunding bonds					13,425,000	13,425,000
Proceeds of loans				9,425,000		9,425,000
Premium on debt issuance				194,328	320,188	514,516
Insurance loss recoveries	2,743					2,743
Sale of transportation equipment	1,535					1,535
Sale of other property	97,125					97,125
Operating transfers in			14,625		1,721,480	1,736,105
Payments held by escrow agents					135,000	135,000
Other financing sources					50,000	50,000
Operating transfers out	(994,175)				(741,930)	(1,736,105)
Payment to refunded bond escrow agent					(13,521,569)	(13,521,569)
Payment to QZAB debt escrow agent					(135,000)	(135,000)
Total Other Financing Sources (Uses)	(892,772)	0	14,625	9,619,328	1,253,169	9,994,350
Special items - proceeds from sale of land	1,881,000	0	0	0	0	1,881,000
Net Change in Fund Balances	5,380,602	(53,480)	(3,448,928)	9,528,241	(1,219,325)	10,187,110
Fund Balances:						
July 1, 2002	5,424,560	54,538	9,795,140		20,616,522	35,890,760
Prior period adjustments	(166,647)		715,210		(77,527)	471,036
July 1, 2002, as restated	5,257,913	54,538	10,510,350	0	20,538,995	36,361,796
Increase in reserve for inventory	0	0	0	0	27,350	27,350
June 30, 2003	\$ 10,638,515	1,058	7,061,422	9,528,241	19,347,020	46,576,256

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

MADISON COUNTY SCHOOL DISTRICT
 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, 2003

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 10,187,110
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$7,712,147, and the depreciation expense amounted to \$1,864,967.	5,847,180
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	6,015,000
3. Proceeds of long-term liabilities are reported in the governmental funds, but not in the Statement of Activities.	(22,850,000)
4. Governmental funds report the effect of issuance cost premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(96,569)
5. Payments to an escrow agent from advance refunding bond proceeds are reported in governmental funds but not in the Statement of Activities.	13,521,569
6. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	644
7. Proceeds from the sale of assets are reported in the governmental funds as revenues, but only the gain or loss on the sale of assets is reported in the statement of activities.	(1,882,535)
8. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	857,881
9. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	27,350

10. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:

Compensated absences (28,436)

Change in Net Assets of Governmental Activities \$ 11,599,194

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

MADISON COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2003

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	401,400
Due from other funds		<u>2,265,080</u>
Total Assets	\$	<u><u>2,666,480</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	2,262,535
Due to other funds		153,650
Due to student clubs		<u>250,295</u>
Total Liabilities	\$	<u><u>2,666,480</u></u>

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

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

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

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

PSB Fund Project 45-27 RE Fund - This fund accounts for public school building funds to be used for the acquisition or construction of major capital facilities.

2000 \$38.16M Construction Fund - This fund accounts for proceeds from the issuance of debt to be used for the acquisition or construction of major capital facilities.

2002 \$9.43M Construction Fund - This fund accounts for proceeds from the issuance of debt to be used for the acquisition of construction of major capital facilities.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

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

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental and fund financial statements.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide Statement of Net Assets. See Note 6 for details.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2003

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

Reserved for prepaid items - An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

O. Compensated Absences.

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

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

(2) Changes in Accounting Principles and Restatement of Fund Balance.

For the fiscal year ended June 30, 2003, the school district implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the school district's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to GASB Statement No. 34.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

	General Fund	PSB Fund Project 45-27 Fund	2000 \$38.16M Construction Fund	2002 \$9.43M Construction Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances, June 30, 2002						
As Originally Presented	\$ 5,424,560	54,538	9,795,140		16,706,886	31,981,124
GASB Statement No. 34 Adjustments and Restatements:						
Changes in fund structure					3,909,636	3,909,636
Restated Fund Balance, June 30, 2002	\$ <u>5,424,560</u>	<u>54,538</u>	<u>9,795,140</u>	<u>0</u>	<u>20,616,522</u>	<u>35,890,760</u>
GASB Interpretation 6:						
Compensated absences payable						(327,388)
GASB Statement No. 34 Adjustment:						
Capital assets						86,642,464
Accrued interest payable						(1,295,440)
Long-term liabilities						(92,576,107)
Overstatement of capital assets						(1,162,875)
Reclassification of sixteenth section loans						<u>191,907</u>
Governmental Activities Net Assets, June 30, 2002						\$ <u><u>27,362,521</u></u>

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

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions was \$31,786,560, and the bank balance was \$34,090,513.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$416,180.

Investments.

Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

Investments made by the school district that are included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described below:

Category 1 - Insured or registered or for which the securities are held by the school district or its agent in the school district's name.

Category 2 - Uninsured and unregistered for which the securities are held by the broker or dealer's trust department or agent in the school district's name.

Category 3 - Uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the school district's name.

Investment Type	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury/agency securities	\$		14,415,971	14,415,971	14,415,971
Federated government Ultrashort Fund			500,000	500,000	500,000
U.S. Treasury bills		328,208		328,208	328,208
Subtotal	\$	<u>328,208</u>	<u>0</u>	<u>14,915,971</u>	<u>15,244,179</u>
Total Investments	\$			<u>15,244,179</u>	<u>15,244,179</u>

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	\$ 1,445,703	2,094,561
PSB Fund Project 45-27 RE Fund		551,770
2000 \$38.16M Construction Fund		79,712
Other governmental funds	107,737	938,827
Fiduciary Funds	<u>2,265,080</u>	<u>153,650</u>
Total	<u>\$ 3,818,520</u>	<u>3,818,520</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General Fund	\$	126,775
Other governmental funds	<u>126,775</u>	
Total	<u>\$ 126,775</u>	<u>126,775</u>

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

Sixteenth section principal loans payable.

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 38,297	5,076	43,373
2005	11,220	3,545	14,765
2006	11,669	3,096	14,765
2007	12,135	2,630	14,765
2008	12,621	2,144	14,765
2009 - 2011	<u>40,833</u>	<u>3,321</u>	<u>44,154</u>
Total	<u>\$ 126,775</u>	<u>19,812</u>	<u>146,587</u>

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$	994,175
2000 \$38.16M Construction Fund	14,625	
Other governmental funds	<u>1,721,480</u>	<u>741,930</u>
Total	<u>\$ 1,736,105</u>	<u>1,736,105</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

(5) Capital Assets.

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

	Balance 7-1-2002	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2003
<u>Non-depreciable capital assets:</u>						
Land	\$ 5,424,708	16,080	1,022,190		319,803	4,738,401
Construction in progress	23,688,244	7,212,982		(12,707,197)	(1,038,168)	17,155,861
Total non-depreciable capital assets	<u>29,112,952</u>	<u>7,229,062</u>	<u>1,022,190</u>	<u>(12,707,197)</u>	<u>(718,365)</u>	<u>21,894,262</u>
<u>Depreciable capital assets:</u>						
Buildings	72,007,674			12,707,197	(27,397)	84,687,474
Building improvements					49,724	49,724
Improvements other than buildings	2,933,789	32,189			(125,275)	2,840,703
Mobile equipment	2,590,096	58,517	5,200		(32,372)	2,611,041
Furniture and equipment	2,225,763	392,379	7,200		(309,190)	2,301,752
Total depreciable capital assets	<u>79,757,322</u>	<u>483,085</u>	<u>12,400</u>	<u>12,707,197</u>	<u>(444,510)</u>	<u>92,490,694</u>
<u>Less accumulated depreciation for:</u>						
Buildings	18,321,673	1,397,247				19,718,920
Building improvements	13,922	1,989				15,911
Improvements other than buildings	709,537	111,628				821,165
Mobile equipment	1,887,449	118,768	2,808			2,003,409
Furniture and equipment	1,295,229	235,335	7,128			1,523,436
Total accumulated depreciation	<u>22,227,810</u>	<u>1,864,967</u>	<u>9,936</u>	<u>0</u>	<u>0</u>	<u>24,082,841</u>
Total depreciable capital assets, net	<u>57,529,512</u>	<u>(1,381,882)</u>	<u>2,464</u>	<u>12,707,197</u>	<u>(444,510)</u>	<u>68,407,853</u>
Governmental activities capital assets, net	<u>\$ 86,642,464</u>	<u>5,847,180</u>	<u>1,024,654</u>	<u>0</u>	<u>(1,162,875)</u>	<u>90,302,115</u>

Adjustments were needed in several capital assets accounts to reclassify assets previously reported in an incorrect asset group. In addition, an adjustment was made to decrease the prior year balance in construction in progress because the amount was overstated in the previous year.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 1,600,159
Support services	138,724
Non-instructional	<u>126,084</u>
Total Depreciation Expense	<u>\$ 1,864,967</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

Commitments under construction contracts at June 30, 2003, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Madison Station School	\$ 8,282,087	
Ridgeland Elementary School	272,375	
Ridgeland High School	<u>454,050</u>	
Total	<u>\$ 9,008,512</u>	<u>0</u>

(6) Long-term liabilities.

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

	<u>Balance 7-1-2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-2003</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 73,695,000	10,850,000	4,170,000	(10,850,000)	69,525,000	4,290,000
B. Limited obligation bonds payable	10,470,000		185,000		10,285,000	450,000
C. Certificates of participation payable	3,115,000		240,000		2,875,000	250,000
D. Three mill notes payable	3,105,000	12,000,000	1,420,000	(2,575,000)	11,110,000	995,000
E. Qualified zone academy bonds payable	2,000,000				2,000,000	
F. Sixteenth section principal loans payable	191,107			(191,107)		
G. Compensated absences payable	<u>327,388</u>	<u>28,436</u>			<u>355,824</u>	<u>13,139</u>
Total	<u>\$ 92,903,495</u>	<u>22,878,436</u>	<u>6,015,000</u>	<u>(13,616,107)</u>	<u>96,150,824</u>	<u>5,998,139</u>

An adjustment was needed to reflect the issuance of general obligation refunding bonds in the amount of \$10,850,000 for the purpose of refunding the callable maturities of the school district's general obligation bonds, Series 1993. Also, the school district issued three mill notes in the principal amount of \$12,000,000 for the construction and improvement of school buildings and related facilities and for the refunding of the outstanding balance in the amount of \$2,575,000 of the school district's 1995 three mill notes. An adjustment was also needed to reclassify sixteenth section principal loans payable in the amount of \$191,107 as advances for financial reporting purposes.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation refunding bonds, Series 2002	Varies	11-01-02	12-01-13	\$ 10,850,000	10,850,000
General obligation refunding bonds, Series 2001 A	Varies	09-01-00	09-01-20	38,160,000	35,985,000
General obligation refunding bonds, Series 2001 B	Varies	06-01-01	09-01-18	16,840,000	14,890,000
General obligation refunding bonds, Series 1993	Varies	12-01-93	12-01-13	16,300,000	510,000
General obligation refunding bonds, Series 1994	Varies	03-01-94	06-01-08	<u>13,700,000</u>	<u>7,290,000</u>
Total				<u>\$ 95,850,000</u>	<u>69,525,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 4,290,000	3,558,480	7,848,480
2005	4,845,000	3,095,202	7,940,202
2006	4,905,000	2,874,087	7,779,087
2007	5,040,000	2,652,314	7,692,314
2008	5,125,000	2,422,831	7,547,831
2009 - 2013	20,200,000	9,135,725	29,335,725
2014 - 2018	17,480,000	4,388,012	21,868,012
2019 - 2023	<u>7,640,000</u>	<u>464,956</u>	<u>8,104,956</u>
Total	<u>\$ 69,525,000</u>	<u>28,591,607</u>	<u>98,116,607</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2003, the amount of outstanding bonded indebtedness was equal to 11% of property assessments as of October 1, 2002. This debt will be retired from the 1994 Refunding Bond Fund, 1993 General Obligation Bond \$16.3M Fund, 2000 \$38.16M Bond Fund, 2001 \$16.84M Bond Fund and the 2002 General Obligation Refunding Bond Fund.

Current Refunding.

On November 1, 2002, the district issued \$10,850,000 in general obligation refunding bonds with an average interest rate of 3.6 percent to advance refund \$10,850,000 of outstanding general obligation bonds with an average interest rate of 5.4 percent. The net proceeds of \$10,850,000 after payments of \$65,000 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation bonds.

As a result, the general obligation bonds are considered to be defeased and the liability for those bonds in the amount of \$10,850,000 has been removed from long-term liabilities. The remaining portion of the liability for the bonds in the amount of \$510,000 that has not been refunded remains in long-term liabilities to be paid in the next fiscal year.

The district advance refunded the general obligation bonds to reduce its total debt service payments over the remaining 12 years of the debt by approximately \$614,954 and to obtain an economic gain of \$436,300.

B. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement, Series 1998	Varies	06-01-98	02-01-18	\$ <u>10,625,000</u>	<u>10,285,000</u>
Total				\$ <u><u>10,625,000</u></u>	<u><u>10,285,000</u></u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

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

Year Ending June 30	Principal	Interest	Total
2004	\$ 450,000	541,208	991,208
2005	470,000	509,582	979,582
2006	495,000	476,411	971,411
2007	515,000	441,692	956,692
2008	545,000	405,936	950,936
2009 - 2013	3,155,000	1,568,161	4,723,161
2014 - 2018	4,000,000	682,000	4,682,000
2019 - 2023	655,000		655,000
Total	\$ <u>10,285,000</u>	<u>4,624,990</u>	<u>14,909,990</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the 1998 MAEP Bonded Debt Fund.

C. Certificates of participation payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1997 A refunding issue school facilities const.	Varies	12-01-97	03-01-10	\$ 2,795,000	1,715,000
1997 B refunding issue school facilities const.	Varies	12-01-97	02-01-10	<u>1,330,000</u>	<u>1,160,000</u>
Total				\$ <u>4,125,000</u>	<u>2,875,000</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

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

	Year Ending June 30	Principal	Interest	Total
2004	\$	250,000	137,742	387,742
2005		270,000	126,242	396,242
2006		455,000	113,688	568,688
2007		475,000	92,303	567,303
2008		495,000	69,740	564,740
2009 - 2013		930,000	66,480	996,480
Total	\$	<u>2,875,000</u>	<u>606,195</u>	<u>3,481,195</u>

This debt will be retired from the 1997-A Refunding Bond Fund and the 1997-B Refunding Bond Fund.

D. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes, Series 2002	Varies	11-01-02	06-01-16	\$ <u>12,000,000</u>	<u>11,110,000</u>
Total				\$ <u>12,000,000</u>	<u>11,110,000</u>

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

	Year Ending June 30	Principal	Interest	Total
2004	\$	995,000	432,400	1,427,400
2005		1,050,000	402,550	1,452,550
2006		425,000	371,050	796,050
2007		580,000	358,300	938,300
2008		600,000	340,900	940,900
2009 - 2013		4,305,000	1,318,600	5,623,600
2014 - 2018		3,155,000	320,750	3,475,750
Total	\$	<u>11,110,000</u>	<u>3,544,550</u>	<u>14,654,550</u>

This debt will be retired from the 2002 Refunding Notes Fund and the 2002 Three Mill Notes Fund.

The district utilized \$2,575,000 of the limited tax notes proceeds to defease limited tax notes, Series 1995 notes payable and remove that liability from the long-term liabilities.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

E. Qualified zone academy bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
\$2,000,000 limited note	0%	07-20-00	07-01-10	\$ <u>2,000,000</u>	<u>2,000,000</u>
Total				\$ <u><u>2,000,000</u></u>	<u><u>2,000,000</u></u>

F. Sixteenth section principal loans payable.

Sixteenth section principal loans payable is not reflected in long-term liabilities on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Principal Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972).

G. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% 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, 2003, 2002 and 2001 were \$2,809,607, \$2,602,148 and \$2,448,440, respectively, which equaled the required contributions for each year.

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

(8) Other Commitments.

Commitments under construction contracts are described in Note 5.

Operating leases:

The school district has several operating leases for copiers.

Lease expenditures for the year ended June 30, 2003, amounted to \$148,858. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>		<u>Amount</u>
2004	\$	135,641
2005		125,927
2006		67,759
2007		<u>7,260</u>
Total	\$	<u><u>336,587</u></u>

Contracts:

The district entered into a contract with Ryder Student Transportation Services, Inc. (now known as First Student, Inc.) to provide transportation services through June 30, 2005. The contract is based on an estimated school year comprised of a minimum 180 days and 90 routes per day using various rates as stated in the contract based on the type and length of the routes. Transportation expenditures relating to this contract for the year ended June 30, 2003, totaled \$3,266,222. Minimum future payments to be made under the contract are estimated as follows:

<u>Year Ending June 30</u>		<u>Amount</u>
2004	\$	3,356,043
2005		<u>3,364,209</u>
Total	\$	<u><u>6,720,252</u></u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

(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 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
2004	\$ 371,180
2005	362,261
2006	312,984
2007	298,632
2008	263,662
2009 - 2013	1,137,517
2014 - 2018	1,054,410
2019 - 2023	941,596
2024 - 2028	933,107
Thereafter	<u>1,713,089</u>
Total	\$ <u><u>7,388,438</u></u>

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Prior period adjustments, correction of prior year construction expenditures, and reclassification of sixteenth section principal loan.	\$ <u>471,036</u>
Total	\$ <u><u>471,036</u></u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

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

<u>Fund</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	Reclassification of sixteenth section principal loans.	\$ (166,647)
2000 \$38.16M Construction Fund	Correction of prior year construction expenditures and the balance in construction in progress at 7/1/02.	715,210
Other governmental funds	Correct beginning fund balance.	<u>(77,527)</u>
Total \$		<u><u>471,036</u></u>

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Trustmark National Bank in Jackson. The funds in the trust account are used to pay any claim up to \$175,000. For a claim exceeding \$175,000, MSBAWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(12) Prior Year Defeasance of Debt.

In prior years, the Madison County School District defeased certain general obligation and other 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 liability for the defeased bonds are not included in the district's financial statements. On June 30, 2003, \$58,675,000 of bonds outstanding are defeased.

(13) Trust Certificates.

Trust agreements dated 1990 and 1996, were 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 \$3,365,000 and \$1,200,000, respectively, to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

During the 1998 fiscal year, the school district entered into new trust agreements for \$2,795,000 and \$1,330,000, respectively. The proceeds of these agreements were used to finance the early payment of the original certificates of participation.

The projects are 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 leases represent capital leases under which ownership of the projects will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the projects will have sufficient value to satisfy the certificates in the event the school district defaults under the leases; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

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

(14) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Duncan Williams, Inc., has entered into such an arrangement dated July 20, 2000.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2004	\$ 135,000
2005	135,000
2006	0
2007	360,000
2008	220,000
2009 - 2010	<u>385,000</u>
Total	<u>\$ 1,235,000</u>

MADISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2003

(15) Extraordinary Items and/or Special Items.

During the fiscal year, the district sold land with an original cost of \$1,022,190 for \$1,881,000, resulting in a gain of \$858,810. This transaction is considered unusual in nature, therefore, it is reported as a special item.

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2003

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 20,343,750	21,721,970	21,856,118	1,378,220	134,148
State sources	24,916,697	26,204,426	26,204,426	1,287,729	
Federal sources		177,017	177,017	177,017	
Total Revenues	<u>45,260,447</u>	<u>48,103,413</u>	<u>48,237,561</u>	<u>2,842,966</u>	<u>134,148</u>
Expenditures:					
Instruction	27,577,374	27,576,097	27,545,574	1,277	30,523
Support services	16,692,230	16,256,739	16,256,739	435,491	
Facilities acquisition and construction		4,136	36,325	(4,136)	(32,189)
Debt service:					
Principal	36,824	64,332		(27,508)	64,332
Interest	6,549	6,549	6,549		
Total Expenditures	<u>44,312,977</u>	<u>43,907,853</u>	<u>43,845,187</u>	<u>405,124</u>	<u>62,666</u>
Excess (Deficiency) of Revenues over Expenditures	<u>947,470</u>	<u>4,195,560</u>	<u>4,392,374</u>	<u>3,248,090</u>	<u>196,814</u>
Other Financing Sources (Uses):					
Insurance loss recoveries		2,743	2,743	2,743	
Sale of transportation equipment		1,535	1,535	1,535	
Sale of other property		1,978,125	97,125	1,978,125	(1,881,000)
Operating transfers in	1,261,184	1,775,665		514,481	(1,775,665)
Other financing sources	311,207			(311,207)	
Operating transfers out	(2,508,564)	(2,637,208)	(994,175)	(128,644)	1,643,033
Total Other Financing Sources (Uses)	<u>(936,173)</u>	<u>1,120,860</u>	<u>(892,772)</u>	<u>2,057,033</u>	<u>(2,013,632)</u>
Special items	0	0	1,881,000	0	1,881,000
Net Change in Fund Balances	<u>11,297</u>	<u>5,316,420</u>	<u>5,380,602</u>	<u>5,305,123</u>	<u>64,182</u>
Fund Balances:					
July 1, 2002	5,474,914	5,424,560	5,424,560	(50,354)	
Prior period adjustments		427	(166,647)	427	(167,074)
July 1, 2002, as restated	<u>5,474,914</u>	<u>5,424,987</u>	<u>5,257,913</u>	<u>(49,927)</u>	<u>(167,074)</u>
June 30, 2003	\$ <u>5,486,211</u>	<u>10,741,407</u>	<u>10,638,515</u>	<u>5,255,196</u>	<u>(102,892)</u>

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

MADISON COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2003

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 the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

The 1998 MAEP Improvement Fund was not budgeted. The unbudgeted fund is in violation of state law. However, the school district has no liability associated with this violation.

MADISON COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

MADISON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>177,678</u>
Child nutrition cluster:		
School breakfast program	10.553	239,646
National school lunch program	10.555	1,096,490
Total child nutrition cluster		<u>1,336,136</u>
Total U.S. Department of Agriculture		<u>1,513,814</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	123,956
Total U.S. Department of Defense		<u>123,956</u>
<u>U.S. Department of Labor</u>		
Passed-through Mississippi Development Authority:		
Workforce Investment Act - youth activities	17.259	74,344
Total U.S. Department of Labor		<u>74,344</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Magnet schools assistance	84.165	6,663
Safe and drug-free schools and communities-national programs	84.184	2,972
Fund for the improvement of education	84.215	380,020
Twenty-first century community learning centers	84.287	415,547
Total		<u>805,202</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,247,210
Vocational education - basic grants to states	84.048	79,295
Safe and drug-free schools and communities - state grants	84.186	56,239
Goals 2000 - state and local education systemic improvement grants	84.276	9,266
Innovative education program strategies	84.298	66,912
Comprehensive school reform demonstration	84.332	128,745
English language acquisition grants	84.365	27,859
Improving teacher quality - state grants	84.367	396,182
Total		<u>2,011,708</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	952,823
Special education - preschool grants	84.173	56,424
Total		<u>1,009,247</u>
Total passed-through Mississippi Department of Education		<u>3,020,955</u>
Total U.S. Department of Education		<u>3,826,157</u>
 Total for All Federal Awards		 \$ <u><u>5,538,271</u></u>

NOTES TO SCHEDULE

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

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

MADISON COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Madison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Madison County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 17, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 17, 2004, which is included in this report.

Internal Control Over Financial Reporting

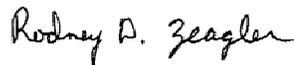
In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 03-1 through 03-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

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.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

August 17, 2004



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Madison County School District

Compliance

We have audited the compliance of the Madison County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Madison County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

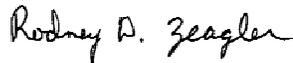
The management of the Madison County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

August 17, 2004

MADISON COUNTY SCHOOL DISTRICT

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

MADISON COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Madison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Madison County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 17, 2004. 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*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported no classroom supply funds carried over from previous years.

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

1. Finding

The following areas of noncompliance were noted during our examination of the district's budget for the 2002-2003 fiscal year:

- A. The district's original budget did not include individual funds.
- B. The district failed to budget the 1998 MAEP Improvement Fund. Expenditures in the fund totaled \$39,283.

Recommendation

- A. The district should prepare its budget in the format prescribed in the *Financial Accounting Manual for Mississippi Public School Districts*. The approved combined and combining budgets for each fund type are to be reflected in the board minutes or an addendum to the board minutes.

- B. The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires a fund be budgeted before any expenditures are incurred in that fund.

School District's Response

- A. The approved combining and combined budgets for each fund type will be reflected in the board minutes.
- B. The expenditure in question from the 1998 MAEP Improvement Fund was a result of booking an adjustment to accrued retainage payable for June 30, 2002, after the final budget for 2003 had been approved. Funds were available to pay this expenditure.

2. Finding

During our examination of 53 payroll expenditure transactions selected for test purposes, it was noted that no documentation was provided for 14 employees as being approved for employment by the board. It was also noted that the federal salary portion of five employees was not documented as being approved by the board.

Recommendation

The district should comply with Section 37-7-301(w), Miss. Code Ann. (1972), which establishes the duties of the school board to employ all non-instructional and non-certified employees and fix the duties and compensation for such personnel. Such salaries should be limited to the amounts set by the school board. Documentation should be maintained by the district verifying board action on these matters.

School District's Response

The district was following advice of legal counsel in order to avoid future litigation. The district approves all staff as they are employed but has not followed the practice of reapproving them each year thereafter. The district plans to change its practice and to begin recommending noncertified employees each year in order to comply with the recommendation.

3. Finding

The following areas of noncompliance were noted during our examination of the Sixteenth Section Principal Fund.

- A. A sixteenth section principal loan from a prior year was not documented as being approved by the board.
- B. Annual payment in the amount of \$27,370 was not made on one of the sixteenth section principal loans before the end of the fiscal year.

Recommendation

The district should comply with Section 29-3-113, Miss. Code Ann. (1972), which requires board approval for all funds borrowed from the sixteenth section principal fund. We recommend that payment in the amount of \$27,370 be made on the sixteenth section principal loan noted above.

School District's Response

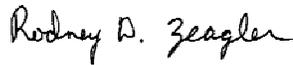
- A. The district will comply with Section 29-3-113, Miss. Code Ann. (1972), and have the school board approve all sixteenth section loans. The sixteenth section loan in question was discussed with the board; however, formal board action was never taken.
- B. The sixteenth section loan in question was retroactively approved by the board on May 3, 2004. The loan was paid in full in August 2003.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

August 17, 2004

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster
CFDA #10.553
CFDA #10.555 | |
| b. | Title I - grants to local educational agencies
CFDA #84.010 | |
| c. | Fund for the improvement of education
CFDA #84.215 | |
| d. | Improving teacher quality - state grants
CFDA #84.367 | |
| e. | Twenty-first century community learning centers
CFDA #84.287 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

MADISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

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

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses

03-1. Finding

The following weaknesses were noted during our examination of the district's capital assets:

- A. Additions to land were not reconciled to the land account per the 710 general ledger object code resulting in a difference of \$15,673.
- B. Additions to improvements other than buildings were not reconciled to the improvements other than buildings account per the 753 general ledger object code resulting in a difference of \$32,189.
- C. Additions to mobile equipment were not reconciled to the mobile equipment account per the 772, 774 and 776 general ledger object codes resulting in a difference of \$35,546.
- D. Additions to furniture and equipment were not reconciled to the furniture and equipment account per the 733 and 737 general ledger object codes resulting in a difference of \$336,532.
- E. The incorrect object code was used to record a number of capital assets.

Adjustments were made to properly reflect the affected accounts.

Recommendation

The district should maintain capital asset subsidiary ledgers as prescribed in the *Financial Accounting Manual for Mississippi School Districts* and the *Mississippi Public School Asset Management Manual*. Also, subsidiary ledgers should be prepared timely and reconciled to the district's financial statements.

03-2. Finding

During our review of the district's computer systems, we noted the following weaknesses in access controls:

- A. User accounts were not disabled after a set number of unsuccessful attempts.
- B. User passwords were not set to expire. There were three users who were no longer employed by the school district.
- C. User accounts did not have a minimum password length.
- D. User passwords could only be assigned and changed by the system administrator.
- E. Passwords could be printed on reports without being encrypted.

MADISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

- F. Several users had access to accounts payable and payroll functions which created a separation of duties weakness.
- G. Several users had administrative rights that did not need this access.
- H. Two users had electronic signature authorization that did not need it.

The *Control Objectives for Information and Related Technology* (CobIT), as well as industry best practices, requires the existence of adequate access controls. The lack of control over passwords could result in inadequate security over access to the financial system of the district.

Recommendation

The district should strengthen controls over its computer systems. Management should set and implement adequate password standards. Users should be locked out after a set number (usually three) of login attempts have been made. Passwords should be changed by the user. Passwords should have a minimum length of five or six characters, be set to expire on a 60 to 90 day interval, and be aged periodically. Passwords should only be printed if encrypted. Also, management should evaluate employees' computer access in relation to their responsibilities in order to insure a proper separation of duties.

03-3. Finding

The accounting software allows users to edit or delete critical data (receipts, purchase orders claims and warrants) until the month is closed out. We found that the district's accounting software was set to allow three (3) months to remain open at one time. Editing or deleting of critical data should not be allowed without providing a clear audit trail. Changes to original data should be documented by a journal entry.

Recommendation

The district should implement policies and controls to insure that changes to critical data are only made through the journal entry process. The district's software should be set to allow only two (2) months to remain open at one time.

03-4. Finding

The district did not have adequate policies and procedures in place detailing a disaster recovery plan.

Recommendation

The district should establish adequate policies and procedures regarding its disaster recovery plan. The plan should be tested on a regular basis and a copy of the plan should be distributed to all related parties, as well as maintained at the off-site tape storage location.

Section 3: Federal Award Findings and Questioned Costs

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

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

MADISON COUNTY SCHOOL DISTRICT

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MADISON COUNTY SCHOOLS

117 Fourth Street • P. O. Box 159
Flora, MS 39071

BOARD OF EDUCATION

Micheal D. Kent
Superintendent of Education
Phone (601) 879-3025
Fax (601) 879-3039

William H. Mounger, Jr., President
Shirley Simmons, Secretary
Ken McCoy
Mary McDonald
Wayne Jimenez

As required by Section ____315 ©of OMB Circular A-133, the Madison County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2003:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
03-1	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Debbie Jones, Finance Director</p> <p>b. Corrective Action Planned: The district employed a fixed asset accountant in November 2003 whose primary responsibility is to maintain the subsidiary ledgers and reconcile to the district's financial statements in a timely manner.</p> <p>c. Anticipated Completion Date: May 2004</p>
03-2	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Debbie Jones, Finance Director</p> <p>b. Corrective Action Planned: The findings are inherent with the financial accounting software. The software vendor is rewriting the program to see that these identified weaknesses are corrected. The district plans to implement all other recommendations.</p>

c. Anticipated Completion Date:

All other recommendations were implemented as of March 22, 2004 that were not inherit in the financial accounting software.

The financial accounting software vendor anticipates the new software to be available by July 1, 2005.

03-3

a. Name(s) of Contact Person(s) Responsible for Corrective Action:

Debbie Jones, Finance Director

b. Corrective Action Planned:

The software vendor is working to implement controls so that changes to critical data are only made with journal entries. The financial accounting software will be set to allow only two months to remain open at one time.

c. Completion Date:

The financial accounting software has been set to allow only two months to remain open at one time as of March 22, 2004. The software should be updated by July 1, 2005.

03-4

a. Name(s) of Contact Person(s) Responsible for Corrective Action:

Debbie Jones, Finance Director

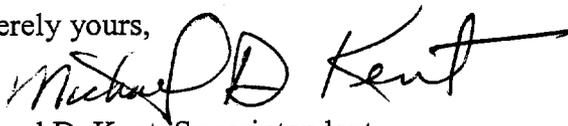
b. Corrective Action Planned:

The district recognizes that a more timely system of deleting inactive or terminated users is needed.

c. Completion Date:

All terminated and inactive users have been deleted as of March 22, 2004.

Sincerely yours,



Michael D. Kent, Superintendent