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MARION COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

MARION COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Marion County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Marion County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

discussion and analysis and budgetary comparison information on pages 4-12 and 40-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2014, on our consideration of the Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
March 13, 2014

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

The following discussion and analysis of Marion County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$679,752, including a prior period adjustment of (\$67,451), which represents a 3% increase from fiscal year 2012. Total net position for 2012 increased \$1,203,535, which represents a 6% increase from fiscal year 2011.
- General revenues amounted to \$16,176,979 and \$16,694,893, or 74% and 73% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,703,030, or 26% of total revenues for 2013, and \$6,124,696, or 27% of total revenues for 2012.
- The District had \$21,132,806 and \$21,616,054 in expenses for fiscal years 2013 and 2012; only \$5,703,030 for 2013 and \$6,124,696 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$16,176,979 for 2013 and \$16,694,893 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,558,782 in revenues and \$14,142,023 in expenditures for 2013, and \$14,882,448 in revenues and \$14,047,235 in expenditures in 2012. The General Fund's fund balance increased by \$24,185, including a prior period adjustment of (\$70,875), from 2012 to 2013, and increased by \$385,259 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$762,992 for 2013 and decreased by \$784,939 for 2012. The decrease for 2013 was due primarily to the increase in accumulated depreciation.
- Long-term debt increased by \$1,641,426 for 2013 and decreased by \$904,504 for 2012. The increase for 2013 was due primarily to the issuance of qualified school construction bonds. The liability for compensated absences decreased by \$11,937 for 2013 and increased by \$2,099 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

deteriorating.

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

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

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

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

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

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

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets and deferred outflows of resources exceeded liabilities by \$21,757,559 as of June 30, 2013.

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

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 6,460,946	\$ 6,234,723	3.63 %
Restricted assets	10,119,838	7,417,194	36.44 %
Capital assets, net	13,544,138	14,307,130	(5.33) %
Total assets	<u>30,124,922</u>	<u>27,959,047</u>	7.75 %
Deferred outflows of resources	<u>60,724</u>	<u>-</u>	N/A %
Current liabilities	143,069	237,648	(39.80) %
Long-term debt outstanding	8,285,018	6,643,592	24.71 %
Total liabilities	<u>8,428,087</u>	<u>6,881,240</u>	22.48 %
Net position:			
Net investment in capital assets	8,106,862	8,136,660	(0.37) %
Restricted	12,191,476	11,613,141	4.98 %
Unrestricted	1,459,221	1,328,006	9.88 %
Total net position	<u>\$ 21,757,559</u>	<u>\$ 21,077,807</u>	3.22 %

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

- Decrease in net capital assets in the amount of \$762,992.
- The principal retirement of \$946,804 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$21,880,009 and \$22,819,589, respectively. The total cost of all programs and services was \$21,132,806 for 2013 and \$21,616,054 for 2012.

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 811,019	\$ 780,214	3.95 %
Operating grants and contributions	4,892,011	5,344,482	(8.47) %
General revenues:			
Property taxes	3,500,119	3,534,640	(0.98) %
Grants and contributions not restricted	11,733,087	12,013,765	(2.34) %
Investment earnings	144,770	145,211	(0.30) %
Sixteenth section sources	517,543	660,540	(21.65) %
Other	281,460	340,737	(17.40) %
Total revenues	21,880,009	22,819,589	(4.12) %
Expenses:			
Instruction	11,443,845	11,805,620	(3.06) %
Support services	7,649,272	7,697,896	(0.63) %
Non-instructional	1,425,167	1,547,690	(7.92) %
Sixteenth section	337,515	221,484	52.39 %
Interest on long-term liabilities	277,007	343,364	(19.33) %
Total expenses	21,132,806	21,616,054	(2.24) %
Increase (Decrease) in net position	747,203	1,203,535	(37.92) %
Net Position, July 1, as previously reported	21,077,807	19,874,272	6.06 %
Prior Period Adjustment	(67,451)	-	N/A %
Net Position, July 1, as restated	21,010,356	19,874,272	5.72 %
Net Position, June 30	\$ 21,757,559	\$ 21,077,807	3.22 %

Governmental activities

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

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		Percentage Change
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 11,443,845	\$ 11,805,620	(3.06) %
Support services	7,649,272	7,697,896	(0.63) %
Non-instructional	1,425,167	1,547,690	(7.92) %
Sixteenth section	337,515	221,484	52.39 %
Interest on long-term liabilities	277,007	343,364	(19.33) %
Total expenses	<u>\$ 21,132,806</u>	<u>\$ 21,616,054</u>	(2.24) %
	<u>Net (Expense) Revenue</u>		Percentage Change
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (8,871,663)	\$ (8,971,890)	(1.12) %
Support services	(6,231,591)	(6,082,494)	2.45 %
Non-instructional	254,478	81,664	211.62 %
Sixteenth section	(303,993)	(175,274)	73.44 %
Interest on long-term liabilities	(277,007)	(343,364)	(19.33) %
Total net (expense) revenue	<u>\$ (15,429,776)</u>	<u>\$ (15,491,358)</u>	(0.40) %

- Net cost of governmental activities (\$15,429,776 for 2013 and \$15,491,358 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$3,500,119 for 2013 and \$3,534,640 for 2012) and state and federal revenues (\$11,733,087 for 2013 and \$12,013,765 for 2012). In addition, there was \$517,543 and \$660,540 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$144,770 for 2013 and \$145,211 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$16,511,133, an increase of \$2,942,218, which includes a prior period adjustment of (\$70,875) and a decrease in inventory of \$6,526. \$1,655,279, or 10%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$14,855,854, or 90%, is either non-spendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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 \$24,185, which includes a prior period adjustment of (\$70,875). The

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

fund balance of Other Governmental Funds showed an increase in the amount of \$102,403, which includes a decrease in inventory of \$6,526. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>	
Title I Fund		no increase or decrease
Sixteenth Section Interest Fund	\$	301,067
QSCB Construction Fund	\$	2,420,926
Sixteenth Section Principal Fund	\$	93,637

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the fiscal year were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$25,047,824, including land, school buildings, building improvements and other improvements, buses, other school vehicles, furniture and equipment, and leased property under capital leases. This amount represents a gross decrease of \$70,974 from 2012. Total accumulated depreciation as of June 30, 2013, was \$11,503,686, and total depreciation expense for the year was \$770,640, resulting in total net capital assets of \$13,544,138.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 144,269	\$ 179,394	(19.58) %
Buildings	8,633,083	8,877,814	(2.76) %
Building improvements	803,716	849,026	(5.34) %
Improvements other than buildings	350,004	361,134	(3.08) %
Mobile equipment	810,710	1,000,657	(18.98) %
Furniture and equipment	370,712	455,483	(18.61) %
Leased property under capital leases	2,431,644	2,583,621	(5.88) %
Total	\$ 13,544,138	\$ 14,307,129	(5.33) %

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

Debt Administration. At June 30, 2013, the District had \$8,285,018 in outstanding long-term debt, of which \$945,484 is due within one year. During the fiscal year, the District received proceeds from the issuance of qualified school construction bonds in the amount of \$2,500,000. The District also refunded the energy efficiency lease payable with the proceeds from the issuance of lease refunding bonds in the amount of \$2,165,000. The District made principal payments totaling \$946,804 on outstanding long-term debt during the fiscal year. The liability for compensated absences decreased \$11,937 from the prior year.

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Limited obligation refunding bonds payable	\$ 2,277,000	\$ 2,614,000	(12.89) %
Certificates of participation payable	395,000	465,000	(15.05) %
Three mill notes payable	661,000	760,000	(13.03) %
Shortfall notes payable	110,666	284,833	(61.15) %
Obligations under energy efficiency leases	-	2,331,470	(100.00) %
Lease refunding bonds payable	2,165,000	-	N/A %
Qualified school construction bonds payable	2,500,000	-	N/A %
Compensated absences payable	176,352	188,289	(6.34) %
Total	<u>\$ 8,285,018</u>	<u>\$ 6,643,592</u>	24.71 %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

MARION COUNTY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2013**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,387,733
Due from other governments	1,037,780
Inventories	35,433
Restricted assets	10,119,838
Capital assets, non-depreciable:	
Land	144,269
Capital assets, net of accumulated depreciation:	
Buildings	8,633,083
Building improvements	803,716
Improvements other than buildings	350,004
Mobile equipment	810,710
Furniture and equipment	370,712
Leased property under capital leases	2,431,644
Total Assets	30,124,922
Deferred Outflows of Resources	
Deferred outflow from advance refunding of debt	60,724
Total Deferred Outflows of Resources	60,724
Liabilities	
Accounts payable and accrued liabilities	69,651
Interest payable on long-term liabilities	73,418
Long-term liabilities, due within one year:	
Capital related liabilities	826,000
Non-capital related liabilities	119,484
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,672,000
Non-capital related liabilities	2,667,534
Total Liabilities	8,428,087
Net Position	
Net investment in capital assets	8,106,862
Restricted for:	
Expendable:	
School-based activities	2,664,933
Debt service	693,925
Forestry improvements	33,286
Unemployment benefits	75,000
Non-expendable:	
Sixteenth section	8,724,332
Unrestricted	1,459,221
Total Net Position	\$ 21,757,559

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

MARION COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2013**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 11,443,845	\$ 458,297	\$ 2,113,885	\$ -	\$ (8,871,663)	
Support services	7,649,272	5,307	1,412,374	-	(6,231,591)	
Non-instructional	1,425,167	313,893	1,365,752	-	254,478	
Sixteenth section	337,515	33,522	-	-	(303,993)	
Interest on long-term liabilities	277,007	-	-	-	(277,007)	
Total Governmental Activities	\$ 21,132,806	\$ 811,019	\$ 4,892,011	\$ -	\$ (15,429,776)	

General Revenues:

Taxes:

General purpose levies	3,373,956
Debt purpose levies	126,163

Unrestricted grants and contributions:

State	11,617,204
Federal	115,883
Unrestricted investment earnings	144,770
Sixteenth section sources	517,543
Other	281,460

Total General Revenues	16,176,979
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Change in Net Position	747,203
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Net Position - Beginning, as previously reported	21,077,807
Prior Period Adjustments	(67,451)

Net Position - Beginning, as restated	21,010,356
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Net Position - Ending	\$ 21,757,559
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The notes to the financial statements are an integral part of this statement.

MARION COUNTY SCHOOL DISTRICT
Governmental Funds

Balance Sheet
June 30, 2013

Exhibit C

	Major Funds							Total Governmental Funds
	General Fund	Title I Fund	Sixteenth Section Interest Fund	QSCB Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds	
Assets								
Cash and cash equivalents	\$ 2,269,667	\$ 1,482	\$ 2,302,003	\$ 2,420,926	\$ 7,520,064	\$ 814,581	\$ 15,328,723	
Cash with fiscal agents	-	-	-	-	-	177,944	177,944	
Investments	-	-	-	-	904	-	904	
Due from other governments	257,993	269,575	-	-	-	510,212	1,037,780	
Due from other funds	560,058	-	-	-	-	-	560,058	
Advance to other funds	-	-	-	-	1,225,986	-	1,225,986	
Inventories	-	-	-	-	-	35,433	35,433	
Total assets	\$ 3,087,718	\$ 271,057	\$ 2,302,003	\$ 2,420,926	\$ 8,746,954	\$ 1,538,170	\$ 18,366,828	
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 36,419	\$ 1,482	\$ 241	\$ -	\$ 22,622	\$ 8,887	\$ 69,651	
Due to other funds	-	269,575	-	-	-	290,483	560,058	
Advances from other funds	1,225,986	-	-	-	-	-	1,225,986	
Total Liabilities	1,262,405	271,057	241	-	22,622	299,370	1,855,695	
Fund Balances:								
Nonspendable:								
Inventory	-	-	-	-	-	35,433	35,433	
Permanent fund principal	-	-	-	-	7,498,346	-	7,498,346	
Advances	-	-	-	-	1,225,986	-	1,225,986	
Restricted:								
Debt service	-	-	-	-	-	767,343	767,343	
Non-capital improvements and renovations	-	-	-	2,420,926	-	-	2,420,926	
Forestry improvement purposes	-	-	-	-	-	33,286	33,286	
Unemployment benefits	-	-	-	-	-	75,000	75,000	
Child Nutrition	-	-	-	-	-	319,552	319,552	
Sixteenth section interest	-	-	2,301,762	-	-	-	2,301,762	
Other purposes	-	-	-	-	-	8,186	8,186	
Assigned:								
Activity funds	170,034	-	-	-	-	-	170,034	
Unassigned	1,655,279	-	-	-	-	-	1,655,279	
Total Fund Balances	1,825,313	-	2,301,762	2,420,926	8,724,332	1,238,800	16,511,133	
Total Liabilities and Fund Balances	\$ 3,087,718	\$ 271,057	\$ 2,302,003	\$ 2,420,926	\$ 8,746,954	\$ 1,538,170	\$ 18,366,828	

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

**MARION COUNTY SCHOOL DISTRICT
Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013**

Exhibit C-1

Total fund balances for governmental funds \$ 16,511,133

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

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

Land	\$	144,269	
Buildings		14,252,125	
Building improvements		1,036,280	
Improvements other than buildings		873,290	
Mobile equipment		3,191,416	
Furniture and equipment		1,751,000	
Leased property under capital leases		3,799,444	
Accumulated depreciation		<u>(11,503,686)</u>	13,544,138

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

Limited obligation bonds		(2,277,000)	
Other bonds payable		(4,665,000)	
Notes payable		(771,666)	
Certificates of participation		(395,000)	
Compensated absences		(176,352)	
Deferred outflow from refunding of debt		60,724	
Accrued interest payable		<u>(73,418)</u>	(8,297,712)

Net Position of governmental activities \$ 21,757,559

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

**MARION COUNTY SCHOOL DISTRICT
Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013**

Exhibit D

	Major Funds						Total Governmental Funds
	General Fund	Title I Fund	Sixteenth Section Interest Fund	QSCB Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:							
Local sources	\$ 3,612,442	\$ -	\$ -	\$ 1,187	\$ -	\$ 962,936	\$ 4,576,565
State sources	10,813,365	-	-	-	-	1,475,121	12,288,486
Federal sources	132,975	1,557,109	-	-	-	2,647,297	4,337,381
Sixteenth section sources	-	-	402,781	-	225,952	33,843	662,576
Total Revenues	14,558,782	1,557,109	402,781	1,187	225,952	5,119,197	21,865,008
Expenditures:							
Instruction	8,219,324	1,025,785	-	-	-	1,963,268	11,208,377
Support services	5,387,997	473,120	-	80,261	-	1,190,057	7,131,435
Noninstructional services	118	41,666	-	-	-	1,379,092	1,420,876
Sixteenth section	61,078	-	200,316	-	33,713	42,408	337,515
Debt service:							
Principal	266,637	-	-	-	-	680,167	946,804
Interest	179,552	-	-	-	-	140,245	319,797
Other	27,317	-	-	-	-	1,000	28,317
Total Expenditures	14,142,023	1,540,571	200,316	80,261	33,713	5,396,237	21,393,121
Excess (Deficiency) of Revenues over (under) Expenditures	416,759	16,538	202,465	(79,074)	192,239	(277,040)	471,887
Other Financing Sources (Uses):							
Bonds and notes issued	-	-	-	2,500,000	-	-	2,500,000
Insurance recovery	5,307	-	-	-	-	-	5,307
Refunding bonds issued	2,165,000	-	-	-	-	-	2,165,000
Payment to lessor for refunding of lease purchase	(2,135,678)	-	-	-	-	-	(2,135,678)
Sale of transportation equipment	8,933	-	-	-	-	-	8,933
Sale of other property	2,566	-	-	-	-	1,604	4,170
Operating transfers in	79,537	-	206,940	-	26,753	539,685	852,915
Operating transfers out	(447,364)	(16,538)	(108,338)	-	(125,355)	(155,320)	(852,915)
Total Other Financing Sources (Uses)	(321,699)	(16,538)	98,602	2,500,000	(98,602)	385,969	2,547,732
Net Change in Fund Balances	95,060	-	301,067	2,420,926	93,637	108,929	3,019,619
Fund Balances:							
July 1, 2012, as previously reported	1,801,128	-	2,000,695	-	8,630,695	1,136,397	13,568,915
Prior period adjustments	(70,875)	-	-	-	-	-	(70,875)
July 1, 2012, as restated	1,730,253	-	2,000,695	-	8,630,695	1,136,397	13,498,040
Decrease in inventory	-	-	-	-	-	(6,526)	(6,526)
June 30, 2013	\$ 1,825,313	\$ -	\$ 2,301,762	\$ 2,420,926	\$ 8,724,332	\$ 1,238,800	\$ 16,511,133

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

**MARION COUNTY SCHOOL DISTRICT
Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 3,019,619

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

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

Capital outlay	\$ 46,858	
Depreciation expense	<u>(770,640)</u>	(723,782)

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

(42,634)

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

Bonds and notes issued	(2,500,000)	
Refunding bonds issued	(2,165,000)	
Payments of debt principal	946,804	
Carrying value of refunded debt	2,064,833	
Accrued interest payable	81,228	
Deferred outflow from refunding of debt	<u>70,845</u>	(1,501,290)

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

Change in compensated absences	11,937	
Change in inventory	(6,526)	
Amortization of deferred outflow	<u>(10,121)</u>	(4,710)

Change in Net Position of governmental activities \$ 747,203

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

**MARION COUNTY SCHOOL DISTRICT
Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities
June 30, 2013**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 946,049
Total Assets	<u>\$ 946,049</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 884,531
Due to student clubs	<u>61,518</u>
Total Liabilities	<u>\$ 946,049</u>

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

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

Blended component unit

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

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Title I Fund - This special revenue fund accounts for the federal revenue received under the Title I grants to local educational agencies program and the expenditures incurred as approved by this program.

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

QSCB Construction Fund - This special revenue fund accounts for proceeds from the issuance of qualified school construction bonds and the non-capital expenditures incurred for improvements and renovations to school facilities.

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

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

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

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

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

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting 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.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district, as well as for its component units, are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds”(i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund. In addition, unspent proceeds from the issuance of long-term debt reported as cash and cash equivalents is classified as restricted assets because the funds are to be spent for specific purposes outlined in resolutions approved by the board, bond documentation, etc.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

Depreciation is calculated on the straight-line basis for all assets, except land.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

The following schedule details the capitalization thresholds:

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

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

7. Implementation of GASB 65

For the fiscal year ended June 30, 2013, the district implemented Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of deferred resources and deferred inflows of resources, such as the changes in the determination of major fund calculations and limiting the use of *deferred* in financial statement presentations.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow from advance refunding of debt. See Note 16 for further details.

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

9. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

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

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

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

11. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is no committed fund balance for this school district.

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

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

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

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

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$15,328,723 and \$946,049, respectively. The carrying amount of deposits in the government-wide financial statements was reported as cash and cash equivalents of \$5,387,733 and a portion of restricted assets in the amount of \$9,940,990 (see Note 4). The bank balance was \$17,283,429.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$17,283,429 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$177,944.

Investments

As of June 30, 2013, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Governmental National Mortgage Association	Not Rated	More than 10 years	\$ 904
Total			<u>\$ 904</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2013, the district did not have any investments to which this would apply.

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

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 269,575
	Other governmental funds	290,483
Total		<u>\$ 560,058</u>

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 1,225,986
Total		<u>\$ 1,225,986</u>

Sixteenth section principal loans payable

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

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 157,715	\$ 49,039	\$ 206,754
2015	164,024	42,731	206,755
2016	170,584	36,170	206,754
2017	117,872	29,347	147,219
2018	122,586	24,632	147,218
2019 - 2023	436,604	59,066	495,670
2024	56,601	2,264	58,865
Total	<u>\$ 1,225,986</u>	<u>\$ 243,249</u>	<u>\$ 1,469,235</u>

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 447,364
Title I Fund	General Fund	16,538
Sixteenth Section Interest Fund	Sixteenth Section Interest Fund	108,338
Sixteenth Section Principal Fund	Sixteenth Section Interest Fund	98,602
	Sixteenth Section Principal Fund	26,753
Other governmental funds	General Fund	62,999
	Other governmental funds	92,321
Total		<u>\$ 852,915</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance and investment balance, totaling \$7,520,064 and \$904, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

represent the cash with fiscal agent balance totaling \$177,944 of the MAEP Retirement Fund. Restricted assets also represent the cash balance totaling \$2,420,926 of the QSCB Construction Fund resulting from unspent proceeds of long-term debt.

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Adjustments	Balance 6/30/2013
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 179,394		\$ 35,125		\$ 144,269
Total non-depreciable capital assets	179,394	-	35,125	-	144,269
<u>Depreciable capital assets:</u>					
Buildings	14,252,125				14,252,125
Building improvements	1,036,280				1,036,280
Improvements other than buildings	873,290				873,290
Mobile equipment	3,265,654		74,238		3,191,416
Furniture and equipment	1,712,611	46,858	8,469		1,751,000
Leased property under capital leases	3,799,444				3,799,444
Total depreciable capital assets	24,939,404	46,858	82,707	-	24,903,555
<u>Less accumulated depreciation for:</u>					
Buildings	5,374,311	244,731			5,619,042
Building improvements	187,254	41,451		3,859	232,564
Improvements other than buildings	512,155	11,131			523,286
Mobile equipment	2,264,997	192,361	66,814	(9,838)	2,380,706
Furniture and equipment	1,257,128	128,989	8,384	2,555	1,380,288
Leased property under capital leases	1,215,823	151,977			1,367,800
Total accumulated depreciation	10,811,668	770,640	75,198	(3,424)	11,503,686
Total depreciable capital assets, net	14,127,736	(723,782)	7,509	3,424	13,399,869
Governmental activities capital assets, net	\$ 14,307,130	\$ (723,782)	\$ 42,634	\$ 3,424	\$ 13,544,138

Adjustments were needed to correct accumulated depreciation for incorrect purchase dates used for various capital assets in prior years.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 262,784
Support services	481,596
Non-instructional	26,260
Total depreciation expense - Governmental activities	\$ 770,640

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 6 – Long-term Liabilities

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

	Balance 7/1/2012	Additions	Reductions	Adjustments due to Refunding	Balance 6/30/2013	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 2,614,000		\$ 337,000		\$ 2,277,000	\$ 348,000
B. Certificates of participation payable	465,000		70,000		395,000	70,000
C. Three mill notes payable	760,000		99,000		661,000	68,000
D. Shortfall notes payable	284,833		174,167		110,666	110,666
E. Obligations under energy efficiency leases	2,331,470		266,637	(2,064,833)	-	-
F. Lease refunding bonds payable		2,165,000			2,165,000	340,000
G. Qualified school construction bonds payable		2,500,000			2,500,000	-
H. Compensated absences payable	188,289		11,937		176,352	8,818
Total	\$ 6,643,592	\$ 4,665,000	\$ 958,741	\$ (2,064,833)	\$ 8,285,018	\$ 945,484

A. Limited obligation refunding bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding bonds, Series 2008	3.35%	7/22/2008	2/1/2018	\$ 3,408,000	\$ 2,277,000
Total				\$ 3,408,000	\$ 2,277,000

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 348,000	\$ 70,451	\$ 418,451
2015	359,000	58,608	417,608
2016	372,000	46,364	418,364
2017	384,000	33,701	417,701
2018	814,000	20,619	834,619
Total	\$ 2,277,000	\$ 229,743	\$ 2,506,743

This debt will be retired from the MAEP Retirement Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi 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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

of the debt limit percentage.

B. Certificates of participation payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust certificates	4.93%	6/1/1998	6/1/2018	\$ 2,620,000	\$ 395,000
Total				<u>\$ 2,620,000</u>	<u>\$ 395,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 70,000	\$ 19,474	\$ 89,474
2015	75,000	16,023	91,023
2016	80,000	12,325	92,325
2017	85,000	8,381	93,381
2018	85,000	4,190	89,190
Total	<u>\$ 395,000</u>	<u>\$ 60,393</u>	<u>\$ 455,393</u>

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note, Series 2008	3.67%	7/22/2008	6/15/2020	\$ 1,120,000	\$ 661,000
Total				<u>\$ 1,120,000</u>	<u>\$ 661,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 68,000	\$ 24,259	\$ 92,259
2015	70,000	21,763	91,763
2016	73,000	19,194	92,194
2017	75,000	16,515	91,515
2018	75,000	13,763	88,763
2019 – 2020	300,000	16,588	316,588
Total	<u>\$ 661,000</u>	<u>\$ 112,082</u>	<u>\$ 773,082</u>

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
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This debt will be retired from the Three Mill Note Retirement Fund.

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note, Series 2010	2.07%	8/23/2010	8/23/2013	\$ 325,166	\$ 110,666
Total				<u>\$ 325,166</u>	<u>\$ 110,666</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 110,666	\$ 2,291	\$ 112,957
Total	<u>\$ 110,666</u>	<u>\$ 2,291</u>	<u>\$ 112,957</u>

This debt will be retired from the Shortfall Note Retirement Fund.

E. Obligations under energy efficiency leases

Original debt issued is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Energy Efficiency Lease	5.26%	7/20/2004	7/20/2019	\$ 3,799,444	\$ -
Total				<u>\$ 3,799,444</u>	<u>\$ -</u>

An energy efficiency lease agreement dated July 20, 2004, was executed by and between the district, the lessee, and First Security Bank, the lessor.

The agreement authorized the borrowing of \$3,799,444 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease were made from the District Maintenance Fund and could not exceed fifteen (15) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee had the option of repaying the total amount due as set forth by the agreement.

On August 20, 2012, the District received proceeds from the issuance of lease revenue bonds and the proceeds of the revenue bonds were used to refund the energy efficiency lease. As a result, the energy efficiency lease is considered to be defeased and the liability for the lease has been removed from long-term liabilities. See Note 6.F. for further details of refunding.

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

F. Lease refunding bonds payable

Debt currently outstanding is as follows:

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

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 340,000	\$ 41,015	\$ 381,015
2015	345,000	36,500	381,500
2016	355,000	29,600	384,600
2017	365,000	22,500	387,500
2018	375,000	15,200	390,200
2019	385,000	7,700	392,700
Total	<u>\$ 2,165,000</u>	<u>\$ 152,515</u>	<u>\$ 2,317,515</u>

This debt will be retired from the District Maintenance Fund.

Advance Refunding

On August 20, 2012, the district issued \$2,165,000 in lease revenue bonds with an average interest rate of 2.0% to advance refund \$2,064,833 of an outstanding energy efficiency lease payable with an average interest rate of 5.26%. The net proceeds in an amount equal to the prepayment option price at fiscal year end of \$2,135,678 after payments of \$29,322 for issuance costs and other miscellaneous costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the energy efficiency lease.

As a result, the energy efficiency lease is considered to be defeased and the liability for the lease has been removed from long-term liabilities.

The district advance refunded the energy efficiency lease to reduce its total debt service payments over the remaining 6 years of the debt by approximately \$161,479.

G. Qualified school construction bonds payable

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2013

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

H. Compensated absences payable

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

Note 7 – Defeasance of Debt

The Marion County School District defeased certain state aid capital improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2013, \$2,165,000 of bonds outstanding are defeased.

Note 8 – Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% 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, 2013, 2012 and 2011 were \$1,653,805, \$1,456,862 and \$1,392,356, respectively, which equaled the required contributions for each year.

Note 9 – Sixteenth Section Lands

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

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Year Ending June 30	Amount
2014	\$ 173,670
2015	171,552
2016	162,744
2017	133,564
2018	88,880
2019 – 2023	77,028
2024 – 2028	72,620
2029 – 2033	68,840
2034 – 2038	53,915
Thereafter	10,638
Total	<u>\$ 1,013,451</u>

Note 10 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. To correct the recording of a prior year asset or liability at the governmental fund level	\$ (70,875)
2. To correct accumulated depreciation for incorrect purchase dates used for various assets in prior years	3,424
Total	<u>\$ (67,451)</u>

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

Fund	Explanation	Amount
General Fund	To correct recording of a prior year asset or liability	\$ (70,875)
Total		<u>\$ (70,875)</u>

Note 11 – Contingencies

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

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

MARION COUNTY SCHOOL DISTRICT
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For the Year Ended June 30, 2013

believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 12 – Risk Management

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

Note 13 – Trust Certificates

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

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

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

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 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 this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, fund balances, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

Note 14 – Qualified School Construction Bonds

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

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

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at

MARION COUNTY SCHOOL DISTRICT
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termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit in the sinking fund at June 30, 2013 was \$0. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2014	\$ 80,000
2015	80,000
2016	80,000
2017	80,000
2018	80,000
2019 – 2023	900,000
2024 – 2028	1,200,000
Total	<u>\$ 2,500,000</u>

Note 15 - Insurance loss recoveries

The Marion County School District received \$5,307 in insurance loss recoveries related to damages during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and were allocated to the support services expense function.

Note 16 – Effect of Deferred Amounts on Net Position

The net investment in capital assets net position amount of \$8,106,862 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of school district debt. The \$60,724 balance of the deferred outflow of resources at June 30, 2013 will be recognized as an expense and decrease the net investment in capital assets net position over the next 6 years.

Note 17 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Marion County School District evaluated the activity of the district through March 13, 2014, (the date the financial statements were available to be issued), and determined that there were no subsequent events that have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MARION COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,507,429	\$ 3,802,950	\$ 3,612,442	\$ 295,521	\$ (190,508)
State sources	10,808,081	10,853,735	10,813,365	45,654	(40,370)
Federal sources	150,000	137,092	132,975	(12,908)	(4,117)
Total Revenues	14,465,510	14,793,777	14,558,782	328,267	(234,995)
Expenditures:					
Instruction	8,447,660	8,594,861	8,219,324	(147,201)	375,537
Support services	5,890,069	6,559,407	5,387,997	(669,338)	1,171,410
Noninstructional services	5,000	5,118	118	(118)	5,000
Sixteenth section	77,120	77,120	61,078	-	16,042
Facilities acquisition and construction	12,000	-	-	12,000	-
Debt service:					
Principal	463,572	463,572	266,637	-	196,935
Interest	179,552	179,552	179,552	-	-
Other	-	-	27,317	-	(27,317)
Total Expenditures	15,074,973	15,879,630	14,142,023	(804,657)	1,737,607
Excess (Deficiency) of Revenues over (under) Expenditures	(609,463)	(1,085,853)	416,759	(476,390)	1,502,612
Other Financing Sources (Uses):					
Bonds and notes issued	-	789,350	-	789,350	(789,350)
Insurance recovery	-	5,307	5,307	5,307	-
Refunding bonds issued	-	-	2,165,000	-	2,165,000
Payment to lessor for refunding of lease purchase	-	-	(2,135,678)	-	(2,135,678)
Sale of transportation equipment	-	8,933	8,933	8,933	-
Sale of other property	-	2,566	2,566	2,566	-
Operating transfers in	2,426,795	2,428,609	79,537	1,814	(2,349,072)
Operating transfers out	(2,774,713)	(2,826,706)	(447,364)	(51,993)	2,379,342
Total Other Financing Sources (Uses)	(347,918)	408,059	(321,699)	755,977	(729,758)
Net Change in Fund Balances	(957,381)	(677,794)	95,060	279,587	772,854
Fund Balances:					
July 1, 2012, as previously reported	1,500,500	1,795,296	1,801,128	294,796	5,832
Prior period adjustments	-	(70,875)	(70,875)	(70,875)	-
July 1, 2012, as restated	1,500,500	1,724,421	1,730,253	223,921	5,832
June 30, 2013	\$ 543,119	\$ 1,046,627	\$ 1,825,313	\$ 503,508	\$ 778,686

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

**MARION COUNTY SCHOOL DISTRICT
Required Supplementary Information**

**Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,717,788	\$ 1,878,564	\$ 1,557,109	\$ 160,776	\$ (321,455)
Total Revenues	1,717,788	1,878,564	1,557,109	160,776	(321,455)
Expenditures:					
Instruction	808,640	1,160,151	1,025,785	(351,511)	134,366
Support services	764,380	601,325	473,120	163,055	128,205
Noninstructional services	128,542	100,550	41,666	27,992	58,884
Total Expenditures	1,701,562	1,862,026	1,540,571	(160,464)	321,455
Excess (Deficiency) of Revenues over (under) Expenditures	16,226	16,538	16,538	312	-
Other Financing Sources (Uses):					
Operating transfers out	(16,226)	(16,538)	(16,538)	(312)	-
Total Other Financing Sources (Uses)	(16,226)	(16,538)	(16,538)	(312)	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -

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

**MARION COUNTY SCHOOL DISTRICT
Required Supplementary Information**

**Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 539,312	\$ 402,781	\$ 402,781	\$ (136,531)	\$ -
Total Revenues	539,312	402,781	402,781	(136,531)	-
Expenditures:					
Sixteenth section	156,062	200,316	200,316	(44,254)	-
Total Expenditures	156,062	200,316	200,316	(44,254)	-
Excess (Deficiency) of Revenues over (under) Expenditures	383,250	202,465	202,465	(180,785)	-
Other Financing Sources (Uses):					
Operating transfers in	268,082	206,940	206,940	(61,142)	-
Operating transfers out	(170,961)	(108,338)	(108,338)	62,623	-
Total Other Financing Sources (Uses)	97,121	98,602	98,602	1,481	-
Net Change in Fund Balances	480,371	301,067	301,067	(179,304)	-
Fund Balances:					
July 1, 2012	1,600,000	2,000,695	2,000,695	400,695	-
June 30, 2013	\$ 2,080,371	\$ 2,301,762	\$ 2,301,762	\$ 221,391	\$ -

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

MARION COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
QSCB Construction Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	\$ 1,187	\$ 1,187	\$ 1,187	\$ -
Total Revenues	-	1,187	1,187	1,187	-
Expenditures:					
Support services	-	100,000	80,261	(100,000)	19,739
Total Expenditures	-	100,000	80,261	(100,000)	19,739
Excess (Deficiency) of Revenues over (under) Expenditures	-	(98,813)	(79,074)	(98,813)	19,739
Other Financing Sources (Uses):					
Bonds and notes issued	-	2,500,000	2,500,000	2,500,000	-
Total Other Financing Sources (Uses)	-	2,500,000	2,500,000	2,500,000	-
Net Change in Fund Balances	-	2,401,187	2,420,926	2,401,187	19,739
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	\$ -	\$ 2,401,187	\$ 2,420,926	\$ 2,401,187	\$ 19,739

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

MARION COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2013

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

**MARION COUNTY SCHOOL DISTRICT
Supplemental Information**

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

Federal Grantor/Pass-through Grantor/Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 381,468
National school lunch program	10.555	891,668
Total child nutrition cluster		<u>1,273,136</u>
Total passed-through Mississippi Department of Education		<u>1,273,136</u>
Total U.S. Department of Agriculture		<u>1,273,136</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	96,912
Total Federal Communications Commission		<u>96,912</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,714,758
Career and technical education - basic grants to states	84.048	64,205
Rehabilitation services_vocational rehabilitation grants to states	84.126	17,092
Education Technology state grants	84.318	25,332
Rural education	84.358	59,942
Improving teacher quality state grants	84.367	215,429
Subtotal		<u>2,096,758</u>
Special education cluster:		
Special education - grants to states	84.027	666,768
Special education - preschool grants	84.173	37,930
Total special education cluster		<u>704,698</u>
Total passed-through Mississippi Department of Education		<u>2,801,456</u>
Total U.S. Department of Education		<u>2,801,456</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	18,972
Total passed-through Mississippi Department of Education		<u>18,972</u>
Total U.S. Department of Health and Human Services		<u>18,972</u>
Total for All Federal Awards		<u>\$ 4,190,476</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.

**MARION COUNTY SCHOOL DISTRICT
Supplemental Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013**

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 15,808,517	11,983,649	449,693	899,115	2,476,060
Other	5,584,604	1,483,072	154,655	26,838	3,920,039
Total	<u>\$ 21,393,121</u>	<u>13,466,721</u>	<u>604,348</u>	<u>925,953</u>	<u>6,396,099</u>
Total number of students *	<u>2,225</u>				
Cost per student	<u>\$ 9,615</u>	<u>6,052</u>	<u>272</u>	<u>416</u>	<u>2,875</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

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

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

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

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

OTHER INFORMATION

MARION COUNTY SCHOOL DISTRICT
Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 3,612,442	\$ 3,660,967	\$ 3,324,678	\$ 3,477,374
State sources	10,813,365	10,939,114	10,901,828	11,342,057
Federal sources	132,975	282,367	151,990	187,342
Total Revenues	14,558,782	14,882,448	14,378,496	15,006,773
Expenditures:				
Instruction	8,219,324	8,149,028	6,785,983	8,463,152
Support services	5,387,997	5,361,182	5,181,704	5,789,743
Noninstructional services	118	47,802		
Sixteenth Section	61,078			
Facilities acquisition and construction		37,598	181,978	1,120,047
Debt Service:				
Principal	266,637	251,281	236,758	223,024
Interest	179,552	200,344	220,080	239,788
Other	27,317			350
Total Expenditures	14,142,023	14,047,235	12,606,503	15,836,104
Excess (Deficiency) of Revenues over (under) Expenditures	416,759	835,213	1,771,993	(829,331)
Other Financing Sources (Uses):				
Insurance recovery	5,307		74,111	
Proceeds of loans			325,166	189,339
Refunding bonds issued	2,165,000			
Payment to lessor for refunding of lease purchase	(2,135,678)			
Sale of transportation equipment	8,933			
Sale of other property	2,566			
Operating transfers in	79,537	67,472	93,936	2,350,441
Operating transfers out	(447,364)	(517,426)	(456,739)	(954,934)
Other financing sources			(9,615)	
Total Other Financing Sources (Uses)	(321,699)	(449,954)	26,859	1,584,846
Net Change in Fund Balances	95,060	385,259	1,798,852	755,515
Fund Balances:				
Beginning of period, as originally reported	1,801,128	1,415,869	(382,983)	(1,138,600)
Prior Period adjustments	(70,875)			102
Beginning of period, restated	1,730,253	1,415,869	(382,983)	(1,138,498)
End of Period	\$ 1,825,313	\$ 1,801,128	\$ 1,415,869	\$ (382,983)

*SOURCE - PRIOR YEAR AUDIT REPORTS

MARION COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 4,576,565	\$ 4,752,647	\$ 4,574,057	\$ 5,198,332
State sources	12,288,486	12,515,464	12,443,900	12,516,835
Federal sources	4,337,381	4,843,314	6,240,655	4,961,158
Sixteenth section sources	662,576	708,164	1,031,065	859,345
Total Revenues	<u>21,865,008</u>	<u>22,819,589</u>	<u>24,289,677</u>	<u>23,535,670</u>
Expenditures:				
Instruction	11,208,377	11,471,852	11,412,623	12,781,595
Support services	7,131,435	7,227,377	7,378,754	7,417,177
Noninstructional services	1,420,876	1,527,174	1,455,949	1,538,463
Sixteenth section	337,515	221,484	402,819	305,503
Facilities acquisition and construction		37,598	181,978	1,120,047
Debt service:				
Principal	946,804	906,603	764,108	524,024
Interest	319,797	364,464	396,227	421,423
Other	28,317		1,000	1,350
Total Expenditures	<u>21,393,121</u>	<u>21,756,552</u>	<u>21,993,458</u>	<u>24,109,582</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>471,887</u>	<u>1,063,037</u>	<u>2,296,219</u>	<u>(573,912)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	2,500,000		325,166	189,339
Insurance recovery	5,307		74,111	
Refunding bonds issued	2,165,000			
Payment to lessor for refunding lease purchase	(2,135,678)			
Sale of transportation equipment	8,933			
Sale of other property	4,170			
Operating transfers in	852,915	1,124,245	1,163,411	3,906,488
Operating transfers out	(852,915)	(1,124,245)	(1,163,411)	(3,906,488)
Other financing sources			(9,615)	
Total Other Financing Sources (Uses)	<u>2,547,732</u>	<u>0</u>	<u>389,662</u>	<u>189,339</u>
Net Change in Fund Balances	<u>3,019,619</u>	<u>1,063,037</u>	<u>2,685,881</u>	<u>(384,573)</u>
Fund Balances:				
Beginning of period, as originally reported	13,568,915	12,506,045	9,814,811	10,197,548
Prior period adjustments	(70,875)			102
Beginning of period, restated	<u>13,498,040</u>	<u>12,506,045</u>	<u>9,814,811</u>	<u>10,197,650</u>
Increase (Decrease) in reserve for inventory	<u>(6,526)</u>	<u>(167)</u>	<u>5,353</u>	<u>1,734</u>
End of Period	<u>\$ 16,511,133</u>	<u>\$ 13,568,915</u>	<u>\$ 12,506,045</u>	<u>\$ 9,814,811</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

Superintendent and School Board
Marion County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements, and have issued our report thereon dated March 13, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
March 13, 2014

Watkins Ward and Stafford, PLLC



WATKINS, WARD AND STAFFORD

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

Superintendent and School Board
Marion County School District

Report on Compliance for Each Major Federal Program

We have audited Marion County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Marion County School District's major federal programs for the year ended June 30, 2013. Marion County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Marion County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Marion County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marion County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marion County School District's internal control over compliance.

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

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

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

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
March 13, 2014

Watkins Ward and Stafford, PCC

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



WATKINS, WARD AND STAFFORD

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INDEPENDENT AUDITOR’S REPORT

ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Marion County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of and for the year ended June 30, 2013, which collectively comprise Marion County School District’s basic financial statements and have issued our report thereon dated March 13, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$17,357 of classroom supply funds carried over from previous years.

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

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

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

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

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

Watkins, Ward, and Stafford, PLLC
Jackson, Mississippi
March 13, 2014

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARION COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Cluster
84.027; 84.173	Special Education Cluster

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

MARION COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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