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Starkville School District

Audited Financial Statements
For the Year Ended June 30, 2014

Fortenberry & Ballard, PC
Certified Public Accountants

**Starkville School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville 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 Starkville School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Starkville 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Starkville School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 to 18 and 59 to 62 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 Starkville School District's 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), 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 accompanying supplementary information mentioned above 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 May 1, 2015, on our consideration of the Starkville 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 Starkville School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
May 1, 2015

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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

FINANCIAL HIGHLIGHTS

- Total net position for 2014 increased \$946,145, including a prior period adjustment of \$831,174, which represents a 7% increase from fiscal year 2013. Total net position for 2013 increased \$289,799, including a prior period adjustment of \$422,115, which represents a 2% increase from fiscal year 2012.
- General revenues amounted to \$34,512,937 and \$33,736,827, or 77% and 78% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,267,697, or 23% of total revenues for 2014 and \$9,476,117, or 22% of total revenues for 2013.
- The District had \$44,665,663 and \$43,345,260 in expenses for fiscal years 2014 and 2013; only \$10,267,697 for 2014 and \$9,476,117 for 2013 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$34,512,937 for 2014 were adequate to provide for these programs and \$33,736,827 for 2013 were not adequate to provide for these programs.
- Among the major funds, the General Fund had \$31,291,057 in revenues and \$33,603,962 in expenditures for 2014 and \$30,474,678 in revenues and \$32,099,158 in expenditures for 2013. The General Fund's fund balance decreased by \$321,193, including a prior period adjustment of \$530,371, from 2013 to 2014 and decreased by \$1,285,519, including a prior period adjustment of \$379,241, from 2012 to 2013.
- Capital assets, net of accumulated depreciation, increased by \$246,068, including a prior period adjustment of \$519,897, for 2014 and increased by \$4,922, including a prior period adjustment of \$108,198, for 2013. The increase for 2014 was due to additions to building improvements, mobile equipment and furniture and equipment coupled with the increase in accumulated depreciation and the effects of the prior period adjustments.
- Long-term debt increased by \$5,815,872 for 2014 and decreased by \$1,299,355 for 2013. This increase for 2014 was due primarily to the issuance of a three mill note and a qualified school construction bond. In addition, the liability for compensated absences increased by \$1,575 for 2014 and decreased by \$36,190 for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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 nonfiduciary assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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:

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.

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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 exceeded liabilities by \$13,975,409 as of June 30, 2014.

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

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

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Table 1
Condensed Statement of Net position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 10,645,331	7,287,006	46%
Restricted assets	4,558,675	1,202,863	279%
Capital assets, net	<u>35,074,596</u>	<u>34,828,528</u>	1%
Total assets	<u>50,278,602</u>	<u>43,318,397</u>	16%
Current liabilities	2,784,099	2,587,486	8%
Long-term debt outstanding	<u>33,519,094</u>	<u>27,701,647</u>	21%
Total liabilities	<u>36,303,193</u>	<u>30,289,133</u>	20%
Net position:			
Net investment in capital assets	4,448,948	7,492,950	(41)%
Restricted	9,196,364	4,546,047	102%
Unrestricted	<u>330,097</u>	<u>990,267</u>	(67)%
Total net position	<u>\$ 13,975,409</u>	<u>13,029,264</u>	7%

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

- Increase in net capital assets in the amount of \$246,068.
- The principal retirement of \$2,164,128 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$44,780,634 and \$43,212,944, respectively. The total cost of all programs and services was \$44,665,663 for 2014 and \$43,345,260 for 2013.

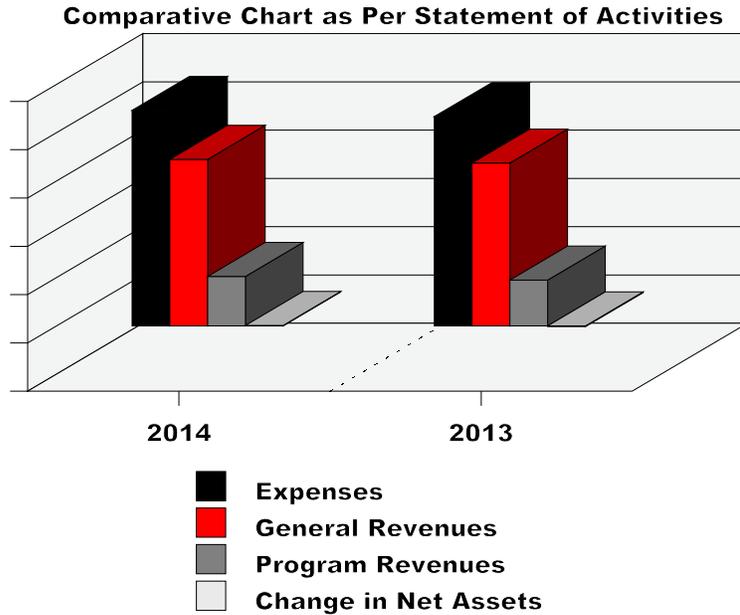
Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 2,146,425	2,638,307	(19)%
Operating grants and contributions	7,946,997	6,837,810	16%
Capital grants and contributions	174,275		
General revenues:			
Property taxes	16,181,922	15,554,155	4%
Grants and contributions not restricted	18,113,326	17,489,067	4%
Investment earnings	12,893	19,818	(35)%
Sixteenth section sources	102,168	31,410	225%
Other	102,628	642,377	(84)%
Total revenues	<u>44,780,634</u>	<u>43,212,944</u>	4%
Expenses:			
Instruction	24,497,407	24,254,416	1%
Support services	15,077,074	14,161,213	6%
Non-instructional	4,101,160	3,994,820	3%
Sixteenth section	8,253	3,178	160%
Interest on long-term liabilities	981,769	931,633	5%
Total expenses	<u>44,665,663</u>	<u>43,345,260</u>	3%
Increase (Decrease) in net position	<u>114,971</u>	<u>(132,316)</u>	187%
Net position, July 1, as previously reported	13,029,264	12,739,465	2%
Prior Period Adjustment	<u>831,174</u>	<u>422,115</u>	97%
Net position, July 1, as restated	<u>13,860,438</u>	<u>13,161,580</u>	5%
Net position, June 30	<u>\$ 13,975,409</u>	<u>13,029,264</u>	7%

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014



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.

Table 3
Net Cost of Governmental Activities

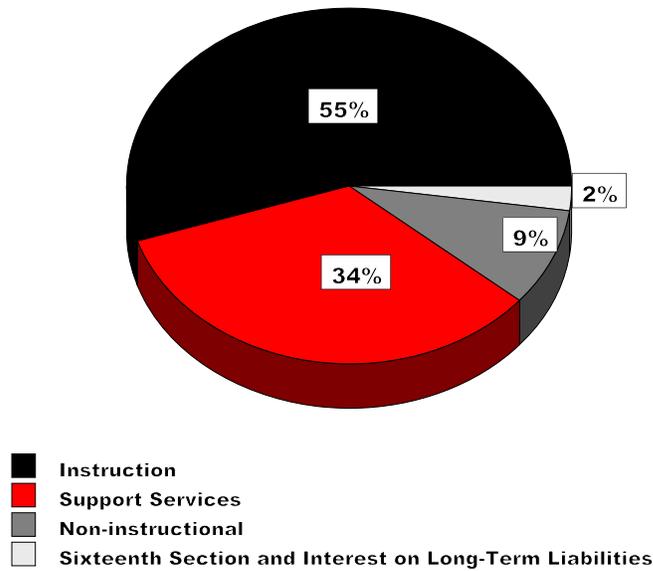
	Total Expenses		Percentage Change
	2014	2013	
Instruction	\$ 24,497,407	24,254,416	1%
Support services	15,077,074	14,161,213	6%
Non-instructional	4,101,160	3,994,820	3%
Sixteenth section	8,253	3,178	160%
Interest on long-term liabilities	981,769	931,633	5%
Total expenses	\$ 44,665,663	43,345,260	3%

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Net (Expense) Revenue

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Instruction	\$ (20,162,903)	(20,636,890)	(2)%
Support services	(13,774,073)	(12,383,460)	11%
Non-instructional	521,433	86,018	506%
Sixteenth section	(654)	(3,178)	(79)%
Interest on long-term liabilities	(981,769)	(931,633)	5%
Total net (expense) revenue	<u>\$ (34,397,966)</u>	<u>(33,869,143)</u>	<u>2%</u>

Chart of Expenses as Per Statement of Activities



- Net cost of governmental activities (\$34,397,966 for 2014 and \$33,869,143 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$16,181,922 for 2014 and \$15,554,155 for 2013) and state and federal revenues (\$18,113,326 for 2014 and \$17,489,067 for 2013). In addition, there was \$102,168 and \$31,410 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$12,893 for 2014 and \$19,818 for 2013.

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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 \$12,661,306, an increase of \$6,526,414, which includes a prior period adjustment of \$311,277 and an increase in inventory of \$13,241. \$283,017, or 2% 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 or assigned to specific purposes within the general fund. The remaining fund balance of \$12,378,289, or 98% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purpose to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$321,193, which includes a prior period adjustment of \$530,371. The fund balance of Other Governmental Funds showed an increase in the amount of \$241,539, which includes a prior period adjustment of (\$237,591) and an increase in inventory of \$13,241. The increase (decrease) in the fund balance for the other major funds was as follows:

Major Fund	Increase (Decrease)
Sixteenth Section Interest Fund	\$ 561,158
Limited Tax Note 2013/2014 Issue Fund	4,641,465
QSCB 2009 Bond Fund	2,525,761

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.

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.

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$52,569,011, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$878,086 from 2013. Total accumulated depreciation as of June 30, 2014, was \$17,494,415 and total depreciation expense for the year was \$1,255,410, resulting in total net capital assets of \$35,074,596.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 187,470	187,470	0%
Construction in progress	540,488	60,318	796%
Buildings	29,907,836	30,221,013	(1)%
Building improvements	1,399,841	1,184,936	18%
Improvements other than buildings	1,294,888	1,390,248	(7)%
Mobile equipment	796,253	766,788	4%
Furniture and equipment	206,684	186,511	11%
Leased property under capital leases	741,136	831,244	(11)%
Total	\$ <u>35,074,596</u>	<u>34,828,528</u>	1%

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

Debt Administration. At June 30, 2014, the District had \$33,519,094 in outstanding long-term debt, of which \$2,861,919 is due within one year. The liability for compensated absences increased \$1,575 from the prior year.

Starkville School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
General obligation bonds payable	\$ 20,770,000	22,600,000	(8)%
Limited obligation bonds payable	715,000	885,000	(19)%
Three mill notes payable	5,200,000	30,644	16869%
Obligations under capital leases	686,450	819,934	(16)%
Qualified school construction bonds payable	5,780,000	3,000,000	93%
Compensated absences payable	367,644	366,069	0%
Total	<u>\$ 33,519,094</u>	<u>27,701,647</u>	21%

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

CURRENT ISSUES

The Starkville School District is financially stable. The District is proud of its community support of its 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 revenue.

Enrollment for the 2013-2014 school year increased by 6% to 4,274 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Starkville School District, 401 Greensboro Street, Starkville, MS 39759.

FINANCIAL STATEMENTS

STARKVILLE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
Assets	
<i>Cash and cash equivalents</i>	\$ 9,463,249
<i>Due from other governments</i>	1,117,141
<i>Inventories</i>	64,941
<i>Restricted assets</i>	4,558,675
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	187,470
<i>Construction in progress</i>	540,488
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	29,907,836
<i>Building improvement</i>	1,399,841
<i>Improvements other than buildings</i>	1,294,888
<i>Mobile equipment</i>	796,253
<i>Furniture and equipment</i>	206,684
<i>Leased property under capital leases</i>	741,136
Total Assets	<u>50,278,602</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	2,512,079
<i>Unearned revenue</i>	30,621
<i>Interest payable on long-term liabilities</i>	241,399
Long-term liabilities (due within one year):	
Capital related liabilities	2,861,919
Long-term liabilities (due beyond one year):	
<i>Capital related liabilities</i>	30,289,531
<i>Non-capital related liabilities</i>	367,644
Total Liabilities	<u>36,303,193</u>
Net Position:	
Net investment in capital assets	4,448,948
Restricted for:	
Expendable:	
School-Based Activities	2,091,242
Debt Service	2,267,397
Capital Projects	4,641,965
Unemployment Benefits	101,752
Forestry Improvements	87,746
Non-expendable:	
Sixteenth section	6,262
Unrestricted	330,097
Total Net Position	<u>\$ 13,975,409</u>

The accompanying notes are an integral part of this statement.

STARKVILLE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
<i>Instruction</i>	24,497,407	1,601,169	2,715,656	17,679
<i>Support services</i>	15,077,074	--	1,303,001	--
<i>Noninstructional services</i>	4,101,160	537,657	3,928,340	156,596
<i>Sixteenth section</i>	8,253	7,599	--	--
<i>Interest on long-term liabilities</i>	981,769	--	--	--
Total Governmental Activities	<u>\$ 44,665,663</u>	<u>\$ 2,146,425</u>	<u>\$ 7,946,997</u>	<u>\$ 174,275</u>
General Revenues:				
Taxes:				
<i>General purpose levies</i>				12,708,709
<i>Debt purpose levies</i>				3,473,213
Unrestricted grants and contributions:				
<i>State</i>				17,907,289
<i>Federal</i>				206,037
<i>Unrestricted investment earnings</i>				12,893
<i>Sixteenth section sources</i>				102,168
<i>Other</i>				102,628
Total General Revenues				<u>34,512,937</u>
Change in Net Position				<u>114,971</u>
Net Position - Beginning, as previously reported				13,029,264
Prior Period Adjustment				831,174
Net Position - Beginning, as restated				<u>13,860,438</u>
Net Position - Ending				<u>\$ 13,975,409</u>

The accompanying notes are an integral part of this statement.

STARKVILLE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2014

EXHIBIT C

	<u>General Fund</u>	<u>Sixteenth Section Interest Fund</u>
Assets		
<i>Cash and cash equivalents</i>	\$ 3,900,748	\$ 611,886
<i>Cash with fiscal agents</i>	--	--
<i>Investments</i>	--	--
<i>Due from other governments</i>	515,654	50,206
<i>Due from other funds</i>	1,064,705	--
<i>Inventories</i>	--	--
Total Assets	<u>\$ 5,481,107</u>	<u>\$ 662,092</u>
Liabilities and Fund Balances		
Liabilities		
<i>Accounts payable and accrued liabilities</i>	\$ 1,980,261	\$ 5,000
<i>Due to other funds</i>	2,750,000	657,092
<i>Unearned revenue</i>	--	--
Total Liabilities	<u>4,730,261</u>	<u>662,092</u>
Fund Balances:		
Nonspendable:		
Permanent fund principal	--	--
Inventory	--	--
Restricted:		
Unemployment benefits	--	--
Forestry improvement purposes	--	--
Capital projects	--	--
Debt service	--	--
Grant activities	--	--
Food service	--	--
Assigned:		
Activity funds	353,461	--
Alternative school	114,368	--
Unassigned	283,017	--
Total Fund Balances	<u>750,846</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 5,481,107</u>	<u>\$ 662,092</u>

The accompanying notes are an integral part of this statement.

Limited Tax Note 2013/2014 Issue Fund	QSCB 2009 Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,891,960	\$ 2,780,348	\$ 4,088,745	\$ 13,273,687
--	--	5,461	5,461
--	--	742,776	742,776
--	--	544,661	1,110,521
2,750,000	--	70,000	3,884,705
--	--	64,941	64,941
<u>\$ 4,641,960</u>	<u>\$ 2,780,348</u>	<u>\$ 5,516,584</u>	<u>\$ 19,082,091</u>
\$ --	\$ 254,546	\$ 272,272	\$ 2,512,079
--	--	470,993	3,878,085
--	--	30,621	30,621
<u>--</u>	<u>254,546</u>	<u>773,886</u>	<u>6,420,785</u>
--	--	6,262	6,262
--	--	64,941	64,941
--	--	101,752	101,752
--	--	87,746	87,746
4,641,960	2,525,802	5	7,167,767
--	--	2,508,796	2,508,796
--	--	635,805	635,805
--	--	1,337,391	1,337,391
--	--	--	353,461
--	--	--	114,368
--	--	--	283,017
<u>4,641,960</u>	<u>2,525,802</u>	<u>4,742,698</u>	<u>12,661,306</u>
<u>\$ 4,641,960</u>	<u>\$ 2,780,348</u>	<u>\$ 5,516,584</u>	<u>\$ 19,082,091</u>

STARKVILLE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances for governmental funds	\$ 12,661,306
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	35,074,596
Payables for bond principal which are not due in the current period are not reported in the funds.	(27,265,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(686,450)
Payables for bond interest which are not due in the current period are not reported in the funds.	(241,399)
Payables for notes which are not due in the current period are not reported in the funds.	(5,200,000)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(367,644)</u>
Net position of governmental activities	<u>\$ 13,975,409</u>

The accompanying notes are an integral part of this statement.

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STARKVILLE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT D

	General Fund	Sixteenth Section Interest Fund
Revenues:		
Local sources	\$ 13,230,087	\$ 476
Intermediate sources	6,833	--
State sources	17,786,869	--
Federal sources	267,268	--
Sixteenth section sources	--	102,169
Total Revenues	<u>31,291,057</u>	<u>102,645</u>
Expenditures:		
Instruction	20,141,374	5,011
Support services	13,380,976	--
Noninstructional services	26,426	--
Sixteenth section	--	2,204
Facilities acquisition and construction	12,365	--
Debt service:		
Principal	28,150	--
Interest	14,671	--
Other	--	--
Total Expenditures	<u>33,603,962</u>	<u>7,215</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,312,905)</u>	<u>95,430</u>
Other Financing Sources (Uses):		
Debt issued	--	--
Insurance recovery	20,743	--
Transfers in	1,440,598	--
Payments held by escrow agents	--	--
Other financing sources	--	--
Transfers out	--	(657,092)
Other financing uses	--	--
Total Other Financing Sources (Uses)	<u>1,461,341</u>	<u>(657,092)</u>
Net Change in Fund Balances	<u>(851,564)</u>	<u>(561,662)</u>
Fund Balances:		
July 1, 2013, as previously reported	1,072,039	561,158
Prior period adjustments	530,371	504
July 1, 2013, as restated	<u>1,602,410</u>	<u>561,662</u>
Increase (decrease) in inventory	--	--
June 30, 2014	<u>\$ 750,846</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

Limited Tax Note 2013/2014 Issue Fund	QSCB 2009 Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 307	\$ 5,300,430	\$ 18,531,300
--	--	65,705	72,538
--	--	1,444,651	19,231,520
--	--	6,563,741	6,831,009
--	--	7,598	109,767
<u>--</u>	<u>307</u>	<u>13,382,125</u>	<u>44,776,134</u>
--	--	3,586,337	23,732,722
66,241	--	1,530,507	14,977,724
--	--	3,948,484	3,974,910
--	--	6,049	8,253
408,928	254,546	59,076	734,915
--	--	2,135,978	2,164,128
--	--	845,588	860,259
101,359	--	11,261	112,620
<u>576,528</u>	<u>254,546</u>	<u>12,123,280</u>	<u>46,565,531</u>
<u>(576,528)</u>	<u>(254,239)</u>	<u>1,258,845</u>	<u>(1,789,397)</u>
5,200,000	2,780,000	--	7,980,000
--	--	--	20,743
--	--	211,996	1,652,594
--	--	327,336	327,336
--	--	4,500	4,500
--	--	(995,502)	(1,652,594)
--	--	(341,286)	(341,286)
<u>5,200,000</u>	<u>2,780,000</u>	<u>(792,956)</u>	<u>7,991,293</u>
<u>4,623,472</u>	<u>2,525,761</u>	<u>465,889</u>	<u>6,201,896</u>
495	41	4,501,159	6,134,892
17,993	--	(237,591)	311,277
<u>18,488</u>	<u>41</u>	<u>4,263,568</u>	<u>6,446,169</u>
--	--	13,241	13,241
<u>\$ 4,641,960</u>	<u>\$ 2,525,802</u>	<u>\$ 4,742,698</u>	<u>\$ 12,661,306</u>

STARKVILLE SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014*

Net change in fund balances - total governmental funds	\$ 6,201,896
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	982,193
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,255,410)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(612)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,000,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	133,484
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	30,644
(Increase) decrease in accrued interest from beginning of period to end of period.	40,627
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	13,241
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(1,575)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(7,980,000)
Bond issuance costs were expensed based on new GASB 65 implementation.	<u>(49,517)</u>
Change in net position of governmental activities	<u>\$ 114,971</u>

The accompanying notes are an integral part of this statement.

STARKVILLE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2014

EXHIBIT E

	Agency Funds
Assets	
<i>Cash and cash equivalents</i>	\$ 487,752
Total Assets	<u>\$ 487,752</u>
Liabilities	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 180,455
<i>Due to other funds</i>	6,620
<i>Other payables</i>	300,677
Total Liabilities	<u>\$ 487,752</u>

The accompanying notes are an integral part of this statement.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Starkville since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

debt attributable to the acquisition, construction or improvement of those assets.

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Sixteenth Section Interest Fund - This is a special revenue fund that accounts for the expendable revenues associated with earnings on sixteenth section lands and the expenditures incurred for maintaining and improving sixteenth section lands.

Limited Tax Note 2013/2014 Issue Fund - This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of, a limited tax note.

QSCB 2009 Bond Fund - This fund is used to account for proceeds and expenditures used to retire the principal and interest on the QSCB 2009 bond and the QSCB 2014 bond.

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

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

The District's fiduciary funds include the following:

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

Accounts Payable Clearing Fund - This fund serves as a clearing fund for accounts payable 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.

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.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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, 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 Sections 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 are reported at fair market value.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

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 School Construction 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.

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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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.

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. 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).

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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.

8. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Currently there are no bond discounts or premiums presented in this report.

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.

9. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

School Board, the District's highest level of decision-making authority. 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 Business Manager pursuant to authorization established by the policy adopted by the school district.

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.

When an expenditure 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 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 8% of 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 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

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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 close-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$13,273,687 and \$487,752, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2014, none of the district's bank balance of \$15,705,359 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 \$5,461.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Investments

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

Investment Type	Rating	Maturities (In years)	Fair Value
United States Treasury	AA+	1 to 5	\$ <u>742,776</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, 2014, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirements 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	Sixteenth Section Interest Fund	\$ 657,092
	Other Governmental Funds	400,993
	Fiduciary Funds	6,620
Limited Tax Note 2013-2014 Issue Fund	General Fund	2,750,000
	Other Governmental Funds	70,000
Total		\$ <u>3,884,705</u>

The purpose of the inter-fund loans was to cover federal and state funds not received prior to year-end and amounts due from and amount due to agency funds. Payments are made of amounts due between funds within three months.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

B. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Sixteenth Section Interest Fund	\$ 657,092
	Other Governmental Funds	783,506
Other Governmental Funds	Other Governmental Funds	211,996
Total		<u>\$ 1,652,594</u>

The primary reason of the interfund transfers out of the sixteenth section interest fund and into the general fund was to transfer sixteenth section interest funds. The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund.

Note 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$6,262, 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 represent the cash and investment balance, totaling \$1,023,828 and \$742,776, respectively of the 2007 Bond Issue Debt Service Fund.

In addition, the restricted assets represent the cash with fiscal agents balance totaling \$5,461, of the MAEP Retirement Fund.

In addition, the restricted assets represent the cash balance totaling \$2,780,348, of the QSCB 2009 Bond Fund.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 5 - Capital Assets

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

	Balance 7-1-2013	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2014
<u>Non-depreciable capital assets:</u>						
Land	\$ 187,470					187,470
Construction in progress	60,318	611,929		(131,759)		540,488
Total non-depreciable capital assets	247,788	611,929	0	(131,759)	0	727,958
<u>Depreciable capital assets:</u>						
Buildings	42,170,051					42,170,051
Building improvements	1,638,951	122,986		131,759		1,893,696
Improvements other than buildings	2,487,609				4,505	2,492,114
Mobile equipment	2,966,554	130,989				3,097,543
Furniture and equipment	1,239,447	116,289	51,264			1,304,472
Leased property under capital leases	940,525		9,855		(47,493)	883,177
Total depreciable capital assets	51,443,137	370,264	61,119	131,759	(42,988)	51,841,053
<u>Less accumulated depreciation for:</u>						
Buildings	11,949,038	797,415			(484,238)	12,262,215
Building improvements	454,015	64,231			(24,391)	493,855
Improvements other than buildings	1,097,361	99,685			180	1,197,226
Mobile equipment	2,199,766	133,113			(31,589)	2,301,290
Furniture and equipment	1,052,936	89,946	50,751		5,657	1,097,788
Leased property under capital leases	109,281	71,020	9,756		(28,504)	142,041
Total accumulated depreciation	16,862,397	1,255,410	60,507	0	(562,885)	17,494,415
Total depreciable capital assets, net	34,580,740	(885,146)	612	131,759	519,897	34,346,638
Governmental activities capital assets, net	\$ 34,828,528	(273,217)	612	0	519,897	35,074,596

Adjustments were made to properly present capital assets.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instructional	\$ 878,787
Support services	251,082
Non-instructional	125,541
Total depreciation expense	<u>\$ 1,255,410</u>

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Construction in progress is composed of:

	Spent to June 30, 2014	Remaining Commitment
Walk-in freezer - Henderson	122,986	8,117
Roofing project	182,140	254,816
SHS Synthetic Turn/Stadium	235,362	1,344,520
Total	\$ 540,488	1,607,453

Construction projects included in governmental activities are funded by the District Maintenance Fund.

Note 6 - Long-Term Liabilities

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

	Balance 7-1-2013	Additions	Reductions	Balance 6-30-2014	Amounts due within one year
A. General obligation bonds payable	\$ 22,600,000		1,830,000	20,770,000	2,085,000
B. Limited obligation bonds payable	885,000		170,000	715,000	175,000
C. Three mills note payable	30,644	5,200,000	30,644	5,200,000	465,000
E. Obligations under capital leases	819,934		133,484	686,450	136,919
F. Qualified school construction bonds payable	3,000,000	2,780,000		5,780,000	
G. Compensated absences payable	366,069	1,575		367,644	
Total	\$ 27,701,647	7,981,575	2,164,128	33,519,094	2,861,919

A. General obligations bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
GOB, Series 2003	2.89%	06-25-03	12-01-15	\$ 7,470,000	1,730,000
GOB, Series 2007	3.60%	12-21-07	03-01-20	5,000,000	3,550,000
GOB, Series 2008	5.00%	10-15-08	09-01-23	9,925,000	8,025,000
GOB, Series 2009	3.75%	10-22-09	09-01-24	8,575,000	7,465,000
Total				\$ 30,970,000	20,770,000

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

1. General obligation bond issue of June 25, 2003:

Year Ending June 30		Principal	Interest	Total
2015	\$	810,000	43,320	853,320
2016		<u>920,000</u>	<u>15,180</u>	<u>935,180</u>
Total	\$	<u><u>1,730,000</u></u>	<u><u>58,500</u></u>	<u><u>1,788,500</u></u>

This debt will be retired from the Bond Issue Debt Service Fund (#4031).

2. General obligation bond issue of December 21, 2007:

Year Ending June 30		Principal	Interest	Total
2015	\$	350,000	127,800	477,800
2016		500,000	115,200	615,200
2017		525,000	97,200	622,200
2018		625,000	78,300	703,300
2019		800,000	55,800	855,800
2020		<u>750,000</u>	<u>27,000</u>	<u>777,000</u>
Total	\$	<u><u>3,550,000</u></u>	<u><u>501,300</u></u>	<u><u>4,051,300</u></u>

This debt will be retired from the Bond Issue Debt Service Fund (#4037).

3. General obligation bond issue of October 15, 2008:

Year Ending June 30		Principal	Interest	Total
2015	\$	600,000	300,656	900,656
2016		675,000	268,781	943,781
2017		650,000	235,656	885,656
2018		675,000	204,641	879,641
2019		675,000	178,063	853,063
2020 - 2024		<u>4,750,000</u>	<u>473,375</u>	<u>5,223,375</u>
Total	\$	<u><u>8,025,000</u></u>	<u><u>1,661,172</u></u>	<u><u>9,686,172</u></u>

This debt will be retired from the Bond Issue Debt Service Fund (#4037).

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

4. General obligation bond issue of October 22, 2009:

Year Ending June 30		Principal	Interest	Total
2015	\$	325,000	246,525	571,525
2016		350,000	234,713	584,713
2017		350,000	222,681	572,681
2018		400,000	210,276	610,276
2019		425,000	197,400	622,400
2020 - 2024		4,250,000	699,044	4,949,044
2025		<u>1,365,000</u>	<u>23,882</u>	<u>1,388,882</u>
Total	\$	<u><u>7,465,000</u></u>	<u><u>1,834,521</u></u>	<u><u>9,299,521</u></u>

This debt will be retired from the Debt Service Fund.

Total general obligations bond payments for all issues:

Year Ending June 30		Principal	Interest	Total
2015	\$	2,085,000	718,301	2,803,301
2016		2,445,000	633,874	3,078,874
2017		1,525,000	555,537	2,080,537
2018		1,700,000	493,217	2,193,217
2019		1,900,000	431,263	2,331,263
2020 - 2024		9,750,000	1,199,419	10,949,419
2025		<u>1,365,000</u>	<u>23,882</u>	<u>1,388,882</u>
Total	\$	<u><u>20,770,000</u></u>	<u><u>4,055,493</u></u>	<u><u>24,825,493</u></u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2014, the amount of outstanding bonded indebtedness was equal to 8% of property assessments as of October 1, 2013.

B. Limited obligations 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:

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds, Series 2009	4.8%	10-22-09	02-01-18	\$ <u>1,460,000</u>	<u>715,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 175,000	19,788	194,788
2016	175,000	15,587	190,587
2017	180,000	10,950	190,950
2018	<u>185,000</u>	<u>5,550</u>	<u>190,550</u>
Total	\$ <u>715,000</u>	<u>51,875</u>	<u>766,875</u>

This debt will be retired from the Bond Issue Retirement Fund (#4037).

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three Mill Note - Series 2014	2.49%	3-12-14	03-01-29	\$ <u>5,200,000</u>	<u>5,200,000</u>

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Year Ending June 30		Principal	Interest	Total
2015	\$	465,000	125,524	590,524
2016		570,000	117,901	687,901
2017		590,000	103,709	693,709
2018		610,000	89,017	699,017
2019		635,000	73,829	708,829
2020 - 2024		1,605,000	186,626	1,791,626
2025 - 2029		725,000	64,118	789,118
Total	\$	<u>5,200,000</u>	<u>760,724</u>	<u>5,960,724</u>

This debt will be retired from the Limited Tax Note Debt Service Fund (#4021).

D. Obligations under capital leases

The school district has entered into lease agreements as lessee for financing the acquisition of capital assets. The leases qualify as a capital lease for accounting purposes. Leases currently outstanding are as following:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Equipment Lease - 2006	4.28%	09-01-06	06-01-16	\$ 243,583	56,783
2. Buses lease - 2012	2.12%	08-12-12	12-03-19	789,109	629,667
Total				<u>\$ 1,032,692</u>	<u>686,450</u>

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

1. Equipment Lease - 2006:

Year Ending June 30		Principal	Interest	Total
2015	\$	27,788	1,988	29,776
2016		28,995	780	29,775
Total	\$	<u>56,783</u>	<u>2,768</u>	<u>59,551</u>

This debt will be retired from the District Maintenance Fund.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

2. Buses Lease - 2012:

Year Ending June 30		Principal	Interest	Total
2015	\$	109,131	12,775	121,906
2016		111,457	10,449	121,906
2017		113,832	8,074	121,906
2018		116,258	5,648	121,906
2019		118,736	3,170	121,906
2020		<u>60,253</u>	<u>639</u>	<u>60,892</u>
Total	\$	<u><u>629,667</u></u>	<u><u>40,755</u></u>	<u><u>670,422</u></u>

This debt will be retired from the EEF Building and Buses Fund.

Total obligations under capital leases:

Year Ending June 30		Principal	Interest	Total
2015	\$	136,919	14,763	151,682
2016		140,452	11,229	151,681
2017		113,832	8,074	121,906
2018		116,258	5,648	121,906
2019		118,736	3,170	121,906
2020		<u>60,253</u>	<u>639</u>	<u>60,892</u>
Total	\$	<u><u>686,450</u></u>	<u><u>43,523</u></u>	<u><u>729,973</u></u>

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

E. Qualified school construction bonds payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Qualified school construction bonds - 2009	0.00%	10-08-09	09-15-24	\$ 3,000,000	3,000,000
2. Qualified school construction bonds - 2014	0.00%	06-15-14	06-15-28	<u>2,780,000</u>	<u>2,780,000</u>
Total				<u><u>\$ 5,780,000</u></u>	<u><u>5,780,000</u></u>

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

F. Compensated absences payable

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

Note 7 - Other Commitments

Commitments under construction contracts are described in Note 5.

Operating leases:

The school district has an operating lease for three hundred and nine Lenovo Thinkpad Notebook computers at a total cost of \$383,475 with 0% interest, payable over 3 years.

Lease expenditures for the year ended June 30, 2014, amounted to \$127,825. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2015	\$ <u>127,825</u>

Note 8 - Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$3,756,517, \$3,376,040 and \$2,957,918, respectively, which equaled the required contributions for each year.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Year Ending June 30	Amount
2015	\$ 7,664
2016	2,550
2017	2,550
2018	2,550
2019	1,450
2020 - 2024	7,250
2025 - 2029	7,250
Total	<u>\$ 31,264</u>

Note 10 - 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 believes that it is not possible to provide an evaluation of the likelihood of an adverse result of these litigations or the potential range of loss.

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 11 - Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Board Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 94 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 12 - 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 credits 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.

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credits 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 years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2014 was \$742,776. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedules report the annual deposits to be made to the sinking fund by the school district.

1. Qualified school construction bonds - 2009:

Year Ending June 30	Amount
2015	\$ 214,285
2016	214,286
2017	214,286
2018	214,286
2019	214,286
2020 - 2024	1,071,430
2025 - 2028	214,286
Total	\$ <u>2,357,145</u>

2. Qualified school construction bonds - 2014:

Year Ending June 30	Amount
2015	\$ 100,000
2016	125,000
2017	125,000
2018	125,000
2019	125,000
2020 - 2024	780,000
2025 - 2028	1,300,000
Total	\$ <u>2,680,000</u>

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Total payment for all issues:

Year Ending June 30	Amount
2015	\$ 314,285
2016	339,286
2017	339,286
2018	339,286
2019	339,286
2020 - 2024	1,851,430
2025 - 2028	1,514,286
Total	<u>\$ 5,037,145</u>

Note 13 - Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. See explanation below.	\$ 190,000
2. See explanation below.	84,658
3. See explanation below.	224,344
4. See explanation below.	31,369
5. See explanation below.	504
6. See explanation below.	17,993
7. See explanation below.	(237,591)
8. Adjustments were made to properly present capital assets.	519,897
Total	<u>\$ 831,174</u>

Starkville School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Fund	Explanation	Amount
1. General Fund	To record unposted transfer.	\$ 190,000
2.	To adjust prepaid items.	84,658
3.	To correct beginning fund balance.	224,344
4.	Other balance sheet corrections.	31,369
Total General Fund		<u>530,371</u>
5. Sixteenth Section Interest Fund	To correct unrecorded interest.	504
6. Limited Tax Note 2013/2014 Fund	To adjust cash to actual.	17,993
7. Other Governmental Funds	To correct claims, accounts payable and transfers.	(237,591)
Total		<u>\$ 311,277</u>

Note 14 - Alternative School Consortium

The school district entered into an Alternative School Agreement dated September 2, 1993 creating the Quad County Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Starkville School District and the Oktibbeha County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Starkville School District has been designated as the lead school district for the Quad County Alternative School, and the operations of the consortium are included in its financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Quad County Alternative School:

Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds For the Year Ended on June 30, 2014

Revenues

Local sources:

Tuition from other LEA's within the state:

Oktibbeha County School District	\$	107,940
Starkville School District		310,000
Total tuition from other LEA'S within the state		417,940

Interest		30
Donations		1,450
Miscellaneous		2
Total local sources		419,422

Total Revenues		419,422
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Expenditures

Salaries		528,505
Employee benefits		179,273
Professional services		1,403
Property services		547
Other purchased services		3,523
Supplies		13,458
Property		22,951

Total Expenditures		749,660
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Excess (Deficiency) of Revenues Over (Under) Expenditures		(330,238)
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Other Financing Sources/Uses:

Transfer in		492,000
Transfer out		(56,577)

Total Other Financing Sources/Uses		435,423
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Net Change in Fund Balance		105,185
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Starkville School District

Notes to the Financial Statements For the Year Ended June 30, 2014

Fund Balance:

July 1, 2013, as previously reported		2,775
Prior period adjustments		6,428
July 1, 2013, as restated		9,203
July 31, 2014	\$	114,388

Note 15 - Insurance Loss Recoveries

The Starkville School District received \$20,743 in insurance loss recoveries related to water damages to central office and vehicle collision damages during the 2013-2014 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as support services and allocated among the expense function.

Note 16 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Starkville School District evaluated the activity of the district through the date the report was available to be issued, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

1. A Tax Anticipation Note was issued on October 28, 2014 in the amount of \$1,900,000. It will bear interest at .86%_and will mature on June 1, 2015. A bid of \$562,000 was accepted on October 30, 2014 for the construction of SHS cafeteria addition and windows for the gym.

2. During the 2013 session, the Mississippi Legislature passed House Bill 716 which provides for an Administrative consolidation of the Oktibbeha County School District and the Starkville School District into one school district to be designated as Starkville Consolidated School District effective July 1, 2015. As of July 1, 2015, the Oktibbeha County School District will no longer exist and will be consolidated in to the designated Starkville Consolidated School District.

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 13,764,540	12,995,167	13,230,087	(769,373)	234,920
Intermediate sources	-	6,834	6,833	6,834	(1)
State sources	17,876,507	17,786,869	17,786,869	(89,638)	-
Federal sources	240,000	267,269	267,268	27,269	(1)
Total Revenues	<u>31,881,047</u>	<u>31,056,139</u>	<u>31,291,057</u>	<u>(824,908)</u>	<u>234,918</u>
Expenditures:					
Instruction	18,996,615	19,978,500	20,141,374	(981,885)	(162,874)
Support services	12,161,775	13,085,671	13,380,976	(923,896)	(295,305)
Noninstructional services	5,000	26,426	26,426	(21,426)	-
Facilities acquisition and construction	-	12,365	12,365	(12,365)	-
Debt service:					
Principal	57,000	28,150	28,150	28,850	-
Interest	5,000	1,775	14,671	3,225	(12,896)
Total Expenditures	<u>31,225,390</u>	<u>33,132,887</u>	<u>33,603,962</u>	<u>(1,907,497)</u>	<u>(471,075)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>655,657</u>	<u>(2,076,748)</u>	<u>(2,312,905)</u>	<u>(2,732,405)</u>	<u>(236,157)</u>
Other Financing Sources (Uses):					
Proceeds of loans	1,650,000	1,900,000	-	250,000	(1,900,000)
Insurance recovery	7,000	20,743	20,743	13,743	-
Sale of transportation equipment	7,000	-	-	(7,000)	-
Transfers in	1,074,297	5,040,552	1,440,598	3,966,255	(3,599,954)
Transfers out	(2,676,988)	(4,236,491)	-	(1,559,503)	4,236,491
Total Other Financing Sources (Uses)	<u>61,309</u>	<u>2,724,804</u>	<u>1,461,341</u>	<u>2,663,495</u>	<u>(1,263,463)</u>
Net Change in Fund Balances	<u>716,966</u>	<u>648,056</u>	<u>(851,564)</u>	<u>(68,910)</u>	<u>(1,499,620)</u>
Fund Balances:					
July 1, 2013, as previously reported	1,273,064	1,273,064	1,072,039	-	(201,025)
Prior period adjustments	-	5,941	530,371	5,941	524,430
July 1, 2013, as restated	<u>1,273,064</u>	<u>1,279,005</u>	<u>1,602,410</u>	<u>5,941</u>	<u>323,405</u>
June 30, 2014	<u>\$ 1,990,030</u>	<u>1,927,061</u>	<u>750,846</u>	<u>(62,969)</u>	<u>(1,176,215)</u>

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

STARKVILLE SCHOOL DISTRICT

Exhibit 2

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,750	475	476	(1,275)	1
Sixteenth section sources	9,700	102,170	102,169	92,470	(1)
Total Revenues	<u>11,450</u>	<u>102,645</u>	<u>102,645</u>	<u>91,195</u>	<u>-</u>
Expenditures:					
Instruction	-	-	5,011	-	(5,011)
Sixteenth section	2,300	2,204	2,204	96	-
Total Expenditures	<u>2,300</u>	<u>2,204</u>	<u>7,215</u>	<u>96</u>	<u>(5,011)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>9,150</u>	<u>100,441</u>	<u>95,430</u>	<u>91,291</u>	<u>(5,011)</u>
Other Financing Sources (Uses):					
Operating transfers out	(500)	-	(657,092)	500	(657,092)
Total Other Financing Sources (Uses)	<u>(500)</u>	<u>-</u>	<u>(657,092)</u>	<u>500</u>	<u>(657,092)</u>
Net Change in Fund Balances	<u>8,650</u>	<u>100,441</u>	<u>(561,662)</u>	<u>91,791</u>	<u>(662,103)</u>
Fund Balances:					
July 1, 2013, as previously reported	190,242	556,147	561,158	365,905	5,011
Prior period adjustments	-	-	504	-	504
July 1, 2012, as restated	<u>190,242</u>	<u>556,147</u>	<u>561,662</u>	<u>365,905</u>	<u>5,515</u>
June 30, 2014	<u>\$ 198,892</u>	<u>656,588</u>	<u>-</u>	<u>457,696</u>	<u>(656,588)</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Starkville School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2014

Budgetary Comparison Schedules

(1) Basis of Presentation

The Budgetary Comparison Schedules present 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.

SUPPLEMENTARY INFORMATION

Starkville School District
 Schedule of Expenditure of Federal Awards
 For the Year Ended June 30, 2014

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 468,172
National School Lunch Program	10.555	1,723,924
Total Child Nutrition Cluster		<u>2,192,096</u>
Total passed-through Mississippi Department of Education		<u>2,192,096</u>
Total U. S. Department of Agriculture		<u>2,192,096</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Programs	12.xxx	61,232
Total U. S. Department of Defense		<u>61,232</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	53,747
Total Federal Communications Commission		<u>53,747</u>
<u>U. S. Department of Education</u>		
Direct Program:		
Elementary and Secondary School Counseling Programs	84.215E	444,254
Reading to Succeed	84.215G	437,127
Passed-through Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,136,370
Career and Technical Education - Basic Grants to States	84.048	91,711
Education of Homeless Children and Youth	84.196	21,919
Even Start	84.213	9,190
Twenty-first Century Community Learning Centers	84.287	165,253
Rural Education	84.358	75,866
Improving Teacher Quality - State Grants	84.367	229,708
Subtotal		<u>1,730,017</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	974,045
Special Education - Preschool Grants	84.173	17,679
Total Special Education Cluster		<u>991,724</u>
Total passed-through the Mississippi Department of Education		<u>2,721,741</u>
Total U.S Department of Education		<u>3,603,122</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	844,922
Community-Based Child Abuse Prevention Grants	93.590	111,881
Total U.S. Department of Health and Human Services		<u>956,803</u>
TOTAL FOR ALL FEDERAL AWARDS	\$	<u>6,867,000</u>

Notes to Schedule

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

Starkville School District

Schedule 2

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 33,363,750	24,019,157	1,134,961	2,135,498	6,074,134
Other	13,201,781	3,517,873	327,201	72,717	9,283,990
Total	\$ <u>46,565,531</u>	<u>27,537,030</u>	<u>1,462,162</u>	<u>2,208,215</u>	<u>15,358,124</u>
Total number of students *	<u>4,274</u>				
Cost per student	\$ <u>10,895</u>	<u>6,443</u>	<u>342</u>	<u>517</u>	<u>3,593</u>

For purpose 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 functions: 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

STARKVILLE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
 General Fund
 Last Four Years

"UNAUDITED"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 13,230,087	13,019,675	12,964,781	12,393,836
Intermediate sources	6,833	-	-	70,001
State sources	17,786,869	17,099,910	16,670,354	16,072,900
Federal sources	267,268	355,093	478,494	390,260
Total Revenues	<u>31,291,057</u>	<u>30,474,678</u>	<u>30,113,629</u>	<u>28,926,997</u>
Expenditures:				
Instruction	20,141,374	19,588,914	18,536,881	16,982,791
Support services	13,380,976	12,183,112	12,233,500	11,363,991
Noninstructional services	26,426	60,506	20,000	204
Facilities acquisition and construction	12,365	228,891	27,765	-
Debt service:				
Principal	28,150	25,520	24,457	99,438
Interest	14,671	12,215	1,025	3,771
Other	-	-	4,592	74
Total Expenditures	<u>33,603,962</u>	<u>32,099,158</u>	<u>30,848,220</u>	<u>28,450,269</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(2,312,905)</u>	<u>(1,624,480)</u>	<u>(734,591)</u>	<u>476,728</u>
Other Financing Sources (Uses):				
Insurance recovery	20,743	8,977	-	134,379
Sale of transportation equipment	-	-	5,664	-
Sale of other property	-	9,162	-	-
Operating transfers in	1,440,598	333,365	186,138	171,601
Operating transfers out	-	(393,545)	(563,822)	(115,701)
Other financing uses	-	1,761	-	-
Total Other Financing Sources (Uses)	<u>1,461,341</u>	<u>(40,280)</u>	<u>(372,020)</u>	<u>190,279</u>
Net Change in Fund Balances	<u>(851,564)</u>	<u>(1,664,760)</u>	<u>(1,106,611)</u>	<u>667,007</u>
Fund Balances:				
July 1, as previously reported	1,072,039	2,357,558	3,379,513	2,509,361
Prior period adjustments	530,371	379,241	84,656	203,145
July 1, as restated	<u>1,602,410</u>	<u>2,736,799</u>	<u>3,464,169</u>	<u>2,712,506</u>
June 30,	<u>\$ 750,846</u>	<u>1,072,039</u>	<u>2,357,558</u>	<u>3,379,513</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

STARKVILLE SCHOOL DISTRICT

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

"UNAUDITED"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 18,531,300	17,872,675	17,789,846	17,136,224
Intermediate sources	72,538	66,063	63,960	132,016
State sources	19,231,520	18,641,180	18,069,043	17,807,856
Federal sources	6,831,009	6,536,179	8,194,981	8,752,980
Sixteenth section sources	109,767	31,439	41,979	9,605
Total Revenues	<u>44,776,134</u>	<u>43,147,536</u>	<u>44,159,809</u>	<u>43,838,681</u>
Expenditures:				
Instruction	23,732,722	23,282,388	23,948,398	22,316,511
Support services	14,977,724	14,754,373	15,305,620	14,324,601
Noninstructional services	3,974,910	3,988,427	4,437,570	3,926,258
Sixteenth section	8,253	3,178	1,730	3,190
Facilities acquisition and construction	734,915	345,761	1,358,146	2,176,307
Debt service:				
Principal	2,164,128	2,088,464	1,858,457	1,878,756
Interest	860,259	939,455	967,193	1,189,892
Other	112,620	11,617	35,381	14,402
Total Expenditures	<u>46,565,531</u>	<u>45,413,663</u>	<u>47,912,495</u>	<u>45,829,917</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,789,397)</u>	<u>(2,266,127)</u>	<u>(3,752,686)</u>	<u>(1,991,236)</u>
Other Financing Sources (Uses):				
Debt issued	7,980,000	-	-	-
Inception of capital leases	-	789,109	-	-
Insurance recovery	20,743	8,977	-	134,379
Payment to QSCB escrow agent	327,336	(214,279)	-	-
Sale of transportation equipment	-	-	5,664	-
Sale of other property	-	9,162	-	-
Transfer from QSCB debt service agent	-	214,279	-	-
Operating transfers in	1,652,594	891,566	953,138	730,923
Other financing sources	4,500	1,784	236,540	21,568
Operating transfers out	(1,652,594)	(891,566)	(953,138)	(730,923)
Other financing uses	(341,286)	-	(216,489)	-
Total Other Financing Sources (Uses)	<u>7,991,293</u>	<u>809,032</u>	<u>25,715</u>	<u>155,947</u>
Net Change in Fund Balances	<u>6,201,896</u>	<u>(1,457,095)</u>	<u>(3,726,971)</u>	<u>(1,835,289)</u>
Fund Balances:				
July 1, as previously reported	6,134,892	7,254,516	10,921,081	12,590,609
Prior period adjustments	311,277	313,917	84,656	184,074
July 1, as restated	<u>6,446,169</u>	<u>7,568,433</u>	<u>11,005,737</u>	<u>12,774,683</u>
Increase (Decrease) in inventory	<u>13,241</u>	<u>23,554</u>	<u>(24,250)</u>	<u>(18,313)</u>
June 30,	<u>\$ 12,661,306</u>	<u>6,134,892</u>	<u>7,254,516</u>	<u>10,921,081</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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
Starkville School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Starkville School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Starkville School District's basic financial statements, and have issued our report thereon dated May 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. [Finding 2014-001 and Finding 2014-002]

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TELEPHONE 601-992-5292 FAX 601-992-2033

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Starkville 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Finding and Questioned Costs as item. [Finding 2014-002].

Starkville School District's Response to Findings

The Starkville School District's response to the findings identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Starkville School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
May 1, 2015

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville School District

Report on Compliance for Each Major Federal Program

We have audited Starkville 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 its major federal programs for the year ended June 30, 2014. The Starkville School District's major federal programs are identified in the summary of the 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 Starkville 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 the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However our audit does not provide a legal determination on the school district's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Starkville 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 Starkville 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 the 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
May 1, 2015

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Starkville School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Starkville School District as of and for the year ended June 30, 2014, which collectively comprise the Starkville School District's basic financial statements and have issued our report thereon dated May 1, 2015. 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 ensure 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 \$0 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 ensure 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, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
May 1, 2015

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Starkville School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? Yes.

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) 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? No.
7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553 & 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.215G	Reading to Succeed

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported under *Government Auditing Standards*:

Material Weakness:

Finding 2014-001

Condition: We found that bank reconciliations were not performed in a timely manner.

Criteria: An effective system of internal control requires the bank reconciliations to be prepared in a timely manner.

Cause: This is the result of limited staff and improper internal controls to ensure bank reconciliations are complete in a timely manner.

Effect: Untimely bank reconciliations could result in not accurately reporting the financial condition of the district.

Recommendation:

We recommend the district implement policies and procedures to ensure all bank reconciliations are performed in a timely manner.

Finding 2014-002

Condition: Interfund loans were made from the Limited Tax Note Fund and from the Qualified School Construction Bond Fund to the District Maintenance Fund. The Qualified School Construction Bond Fund loan was repaid at fiscal year end. The Limited Tax Note Fund interfund loan is reflected in interfund loans at year end.

Criteria: Controls should be in place to guard against using loan fund proceeds for temporary loans to the District Maintenance Fund.

Cause: Internal controls were not in place to ensure that proceeds from these loan sources were properly used for intended purposes.

Effect: As a result, \$2,750,000 is currently owed back to the Limited Tax Note Fund and is reflected in the interfund loan balances at year end.

Recommendation: The \$2,750,000 should be restored to the Limited Tax Note Fund and controls should be put in place to ensure that loan proceeds are used for allowable and intended purposes.

Section III: Findings and Questioned Costs for Federal Awards

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

AUDITEE'S CORRECTIVE ACTION PLAN

Starkville School District
401 Greensboro Street
Starkville, MS 39756
Dr. Lewis Holloway - Superintendent
Heidi Young - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(c) of OMB Circular A-133, the Starkville School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2014:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2014 - 001	<p>a. Name of contact person responsible for corrective action: Heidi Young, Business Manager, 662-324-4050</p> <p>b. Corrective action planned: The school district will implement policies and procedures to ensure all bank reconciliations are performed in a timely manner.</p> <p>c. Anticipated completion dated: June 30, 2015</p>
2014 - 002	<p>a. Name of contact person responsible for corrective action: Heidi Young, Business Manager, 662-324-4050</p> <p>b. Corrective action planned: The school district will restore the \$2,750,000 to the Limited Tax Note Fund and will implement policies and controls to ensure that loan proceeds are used for allowable and intended purposes.</p> <p>c. Anticipated completion dated: June 30, 2015</p>