



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2015**

**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
CONTENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	14
Government-wide Financial Statements	
Exhibit A -- Statement of Net Position	15
Exhibit B -- Statement of Activities	16
Governmental Funds Financial Statements	
Exhibit C -- Balance Sheet	17
Exhibit C-1 -- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Exhibit D -- Statement of Revenues, Expenditures and Changes in Fund Balances	19
Exhibit D-1 -- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Fiduciary Funds Financial Statements	
Exhibit E -- Statement of Fiduciary Net Position	21
Exhibit F -- Statement of Changes in Fiduciary Net Position	22
Notes to Financial Statements	23
REQUIRED SUPPLEMENTARY INFORMATION	41
Budgetary Comparison Schedule -- General Fund	42
Schedule Of The District's Proportionate Share Of The Net Pension Liability - PERS	43
Schedule Of District Contributions - PERS	44
Notes to Required Supplementary Information	45
SUPPLEMENTARY INFORMATION	46
Schedule of Expenditures of Federal Awards	47
Schedule of Instructional, Administrative and Other Expenditures -- Governmental Funds	48
OTHER INFORMATION	49
Statement of Revenues, Expenditures and Changes in Fund Balances -- General Fund, Last Four Years	50
Statement of Revenues, Expenditures and Changes in Fund Balances -- All Governmental Funds, Last Four Years	51
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	52
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	53
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	55
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	60
AUDITEE'S CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR AUDIT FINDINGS	63

INDEPENDENT AUDITORS' REPORT

**WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
R. Steve Sinclair, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Scrivner, CPA

Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA
Ricky D. Allen, CPA
Jason D. Brooks, CPA
Robert E. Cordle, Jr., CPA
Perry C. Rackley, Jr., CPA

INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Louisville Municipal 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 Louisville Municipal School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Louisville Municipal School District's basic financial statements as listed in the 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District, as of June 30, 2015, 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.

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 5-13, 42, 43 and 44, respectively, 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 Louisville Municipal 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 February 23, 2016 on our consideration of the Louisville Municipal 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 Louisville Municipal School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
February 23, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

The following discussion and analysis of Louisville Municipal School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. 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 2015 decreased \$28,506,959, including a prior period adjustment of (\$28,725,394), which represents a 192% decrease from fiscal year 2014. Total net position for 2014 decreased \$528,582, which represents a 3% decrease from fiscal year 2013.
- General revenues amounted to \$20,125,139 and \$19,294,126, or 78% and 77% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,692,603, or 22% of total revenues for 2015, and \$5,813,521, or 23% of total revenues for 2014.
- The District had \$25,599,307 and \$25,636,229 in expenses for fiscal years 2015 and 2014; only \$5,692,603 for 2015 and \$5,813,521 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,125,139 for 2015 were adequate to provide for these programs. General revenues of \$19,294,126 for 2014 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$20,497,496 in revenues and \$20,675,296 in expenditures for 2015, and \$19,311,604 in revenues and \$19,734,686 in expenditures in 2014. The General Fund's fund balance increased by \$1,955,859 from 2014 to 2015, which included a fund reclassification of \$3,078,091, and decreased by \$611,888 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$637,555 for 2015 and increased by \$2,907 for 2014. The increase for 2015 was due to the additional construction during the year coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$321,784 for 2015 and decreased by \$310,128 for 2014. This decrease for 2015 was due to the principal retirement of debt. The liability for compensated absences increased by \$8,216 for 2015 and increased by \$7,872 for 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board. Additionally, the schedule of the district's proportionate share of the net pension liability and the schedule of the district's contributions are presented in this section.

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. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$13,652,935 as of June 30, 2015.

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.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Table 1 presents a summary of the District's net position at June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 1
Condensed Statement of Net Position**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Current assets	\$ 7,817,272	\$ 8,874,851	-11.92 %
Restricted assets	232,234	231,509	0.31 %
Capital assets, net	<u>10,097,096</u>	<u>9,459,541</u>	6.74 %
Total assets	<u>18,146,602</u>	<u>18,565,901</u>	-2.26 %
Deferred outflows of resources	<u>2,980,492</u>	<u>-</u>	N/A %
Current liabilities	1,667,681	1,686,515	-1.12 %
Long-term debt outstanding	1,703,578	2,025,362	-15.89 %
Net pension liability	<u>27,432,262</u>	<u>-</u>	N/A %
Total liabilities	<u>30,803,521</u>	<u>3,711,877</u>	729.86 %
Deferred inflows of resources	<u>3,976,508</u>	<u>-</u>	N/A %
Net position:			
Net investment in capital assets	8,604,096	7,636,541	12.67 %
Restricted	1,729,770	1,645,558	5.12 %
Unrestricted	<u>(23,986,801)</u>	<u>5,571,925</u>	-530.49 %
Total net position (deficit)	<u>\$ (13,652,935)</u>	<u>\$ 14,854,024</u>	-191.91 %

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$(23,986,801)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	28,428,278
Unrestricted net position, exclusive of the net pension liability effect	<u>\$4,441,477</u>

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 \$637,555.
- Principal retirement of long term debt in the amount of \$330,000.
- Implementation of GASB Statement No. 68 which required the recording of a liability for the proportionate share of net pension liability of the school district as well as the recording of deferred outflows/inflows of resources on the Statement of Net Position

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$25,817,742 and \$25,107,647, respectively. The total cost of all programs and services was \$25,599,307 for 2015 and \$25,636,229 for 2014.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 2
Changes in Net Position**

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 851,916	\$ 863,390	(1.33) %
Operating grants and contributions	4,808,991	4,950,131	(2.85) %
Capital Grants and Contributions	31,696	-	N/A %
General revenues:			
Property taxes	5,914,410	5,827,641	1.49 %
Grants and contributions not restricted	13,705,122	13,030,245	5.18 %
Investment earnings	14,982	20,894	(28.30) %
Sixteenth section sources	458,223	270,624	69.32 %
Other	32,402	144,722	(77.61) %
Total revenues	<u>25,817,742</u>	<u>25,107,647</u>	2.83 %
Expenses:			
Instruction	12,993,274	14,735,528	(11.82) %
Support services	8,380,916	8,736,620	(4.07) %
Non-instructional	2,115,223	2,024,843	4.46 %
Sixteenth section	90,428	70,622	28.05 %
Pension expense	1,963,056	-	N/A %
Interest on long-term liabilities	56,410	68,616	(17.79) %
Total expenses	<u>25,599,307</u>	<u>25,636,229</u>	(0.14) %
Increase (Decrease) in net position	<u>218,435</u>	<u>(528,582)</u>	141.32 %
Net Position, July 1, as previously reported	<u>14,854,024</u>	<u>15,382,606</u>	(3.44) %
Prior Period Adjustment	<u>(28,725,394)</u>	<u>-</u>	N/A %
Net Position, July 1, as restated	<u>(13,871,370)</u>	<u>15,382,606</u>	(190.18) %
Net Position, June 30	<u>\$ (13,652,935)</u>	<u>\$ 14,854,024</u>	(191.91) %

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense 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.

GASB 68 was implemented in fiscal year 2015. Prior year amounts do not reflect the implementation of GASB 68.

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2015	2014	
Instruction	\$ 12,993,274	\$ 14,735,528	(11.82) %
Support services	8,380,916	8,736,620	(4.07) %
Non-instructional	2,115,223	2,024,843	4.46 %
Sixteenth section	90,428	70,622	28.05 %
Pension expense	1,963,056	-	N/A
Interest on long-term liabilities	56,410	68,616	(17.79) %
Total expenses	\$ 25,599,307	\$ 25,636,229	(0.14) %
	Net (Expense) Revenue		
	2015	2014	Percentage Change
Instruction	\$ (10,856,793)	\$ (12,297,576)	(11.72) %
Support services	(7,202,365)	(7,582,850)	(5.02) %
Non-instructional	200,421	167,505	19.65 %
Sixteenth section	(28,501)	(41,171)	(30.77) %
Pension expense	(1,963,056)	-	N/A
Interest on long-term liabilities	(56,410)	(68,616)	(17.79) %
Total net (expense) revenue	\$ (19,906,704)	\$ (19,822,708)	0.42 %

- Net cost of governmental activities (\$19,906,704 for 2015 and \$19,822,708 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$5,914,410 for 2015 and \$5,827,641 for 2014) and state and federal revenues (\$13,705,122 for 2015 and \$13,030,245 for 2014). In addition, there was \$458,223 and \$270,624 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$14,982 for 2015 and \$20,894 for 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.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

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 \$6,432,599, a decrease of \$1,049,243, which includes a decrease in inventory of \$1,698. \$4,168,959 or 65% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$2,263,640 or 35% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,955,859, which includes a fund reclassification of \$3,078,091. The fund balance of Other Governmental Funds showed a decrease in the amount of \$3,005,102, which includes a fund reclassification of (\$3,078,091) and a decrease in reserve for inventory of \$1,698. There are no other major funds reported on the governmental funds balance sheet.

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 is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$19,979,135, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$555,137 from 2014. Total accumulated depreciation as of June 30, 2015, was \$9,882,039, and total depreciation expense for the year was \$669,299, resulting in total net capital assets of \$10,097,096.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 300,015	\$ 279,607	7.30 %
Construction in Progress	585,632	261,711	123.77 %
Buildings	3,951,850	4,089,239	(3.36) %
Building improvements	2,255,930	1,843,216	22.39 %
Improvements other than buildings	1,128,217	1,097,434	2.80 %
Mobile equipment	1,410,979	1,422,271	(0.79) %
Furniture and equipment	464,473	466,063	(0.34) %
Total	\$ 10,097,096	\$ 9,459,541	6.74 %

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

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Debt Administration. At June 30, 2015, the District had \$1,703,578 in outstanding long-term debt, of which \$288,000 is due within one year. The liability for compensated absences increased \$8,216 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Three mill notes payable	\$ 1,493,000	\$ 1,823,000	(18.10) %
Compensated absences payable	210,578	202,362	4.06 %
Total	<u>\$ 1,703,578</u>	<u>\$ 2,025,362</u>	(15.89) %

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

CURRENT ISSUES

The Louisville Municipal School District is financially stable. The District is proud of its community support of the public schools.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Louisville Municipal School District, P.O. Box 909, Louisville, MS 39339.

FINANCIAL STATEMENTS

**Louisville Municipal School District
Statement of Net Position
June 30, 2015**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,802,244
Due from other governments	727,700
Other receivables, net	221,610
Inventories	65,718
Restricted assets	232,234
Capital assets, non-depreciable:	
Land	300,015
Construction in progress	585,632
Capital assets, net of accumulated depreciation:	
Buildings	3,951,850
Building improvements	2,255,930
Improvements other than buildings	1,128,217
Mobile equipment	1,410,979
Furniture and equipment	464,473
Total Assets	<u>18,146,602</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	2,980,492
Total Deferred Outflows of Resources	<u>2,980,492</u>
Liabilities	
Accounts payable and accrued liabilities	1,616,907
Interest payable on long-term liabilities	50,774
Long-term liabilities, due within one year:	
Capital related liabilities	288,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,205,000
Non-capital related liabilities	210,578
Net pension liability	27,432,262
Total Liabilities	<u>30,803,521</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	3,976,508
Total Deferred Inflows of Resources	<u>3,976,508</u>
Net Position	
Net investment in capital assets	8,604,096
Restricted for:	
Expendable:	
School-based activities	798,052
Debt service	254,975
Forestry improvements	374,611
Unemployment benefits	69,898
Non-expendable:	
Sixteenth section	232,234
Unrestricted	(23,986,801)
Total Net Position (Deficit)	<u>\$ (13,652,935)</u>

The accompanying notes to financial statements are an integral part of these statements.

**Louisville Municipal School District
Statement of Activities
For the Year Ended June 30, 2015**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 12,993,274	\$ 512,554	\$ 1,623,927	\$ -		\$ (10,856,793)
Support services	8,380,916	26,756	1,151,795	-		(7,202,365)
Non-instructional	2,115,223	250,679	2,033,269	31,696		200,421
Sixteenth section	90,428	61,927	-	-		(28,501)
Pension expense	1,963,056	-	-	-		(1,963,056)
Interest on long-term liabilities	56,410	-	-	-		(56,410)
Total Governmental Activities	\$ 25,599,307	\$ 851,916	\$ 4,808,991	\$ 31,696		\$ (19,906,704)

General Revenues:	
Taxes:	
General purpose levies	5,602,855
Debt purpose levies	311,555
Unrestricted grants and contributions:	
State	13,535,433
Federal	169,689
Unrestricted investment earnings	14,982
Sixteenth section sources	458,223
Other	32,402
Total General Revenues	20,125,139
Change in Net Position	218,435
Net Position - Beginning, as previously reported	14,854,024
Prior Period Adjustments	(28,725,394)
Net Position - Beginning	(13,871,370)
Net Position - Ending	\$ (13,652,935)

The accompanying notes to financial statements are an integral part of these statements.

**Louisville Municipal School District
Governmental Funds
Balance Sheet
June 30, 2015**

Exhibit C

	<u>Major Fund</u>		
	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 5,293,560	\$ 1,740,918	\$ 7,034,478
Due from other governments	308,654	419,046	727,700
Other receivables, net	189,399	31,049	220,448
Due from other funds	306,738	38,230	344,968
Inventories	-	65,718	65,718
Total Assets	<u>\$ 6,098,351</u>	<u>\$ 2,294,961</u>	<u>\$ 8,393,312</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,408,066	\$ 208,841	\$ 1,616,907
Due to other funds	38,230	305,576	343,806
Total Liabilities	<u>\$ 1,446,296</u>	<u>\$ 514,417</u>	<u>\$ 1,960,713</u>
Fund Balances:			
Nonspendable:			
Inventory	-	65,718	65,718
Permanent fund principal	-	232,234	232,234
Restricted:			
Debt service	-	305,749	305,749
Forestry improvement purposes	-	374,611	374,611
Grant activities	-	732,334	732,334
Unemployment benefits	-	69,898	69,898
Assigned:			
Student activity	109,431	-	109,431
Capital improvements	373,665	-	373,665
Unassigned	<u>4,168,959</u>	<u>-</u>	<u>4,168,959</u>
Total Fund Balances	<u>4,652,055</u>	<u>1,780,544</u>	<u>6,432,599</u>
Total Liabilities and Fund Balances	<u>\$ 6,098,351</u>	<u>\$ 2,294,961</u>	<u>\$ 8,393,312</u>

The accompanying notes to financial statements are an integral part of these statements.

**Louisville Municipal School District
Governmental Funds**

Exhibit C-1

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2015

Total fund balances for governmental funds **\$ 6,432,599**

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

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

Land	\$ 300,015	
Construction in progress	585,632	
Buildings	8,995,881	
Building improvements	2,842,016	
Improvements other than buildings	1,459,681	
Mobile equipment	4,288,969	
Furniture and equipment	1,506,941	
Accumulated depreciation	<u>(9,882,039)</u>	10,097,096

2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(27,432,262)	
-----------------------	--------------	--

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	2,980,492	
Deferred inflows of resources related to pensions	<u>(3,976,508)</u>	(28,428,278)

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

Three mill notes payable	(1,493,000)	
Compensated absences	(210,578)	
Accrued interest payable	<u>(50,774)</u>	(1,754,352)

Net position of governmental activities		\$ <u>(13,652,935)</u>
--	--	-------------------------------

The accompanying notes to financial statements are an integral part of these statements.

Louisville Municipal School District
Governmental Funds

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances
For The Year Ended June 30, 2015

	Major Fund		Total Governmental Funds
	General Fund	Other Governmental Funds	
Revenues:			
Local sources	\$ 6,136,436	\$ 582,316	\$ 6,718,752
Intermediate sources	-	31,696	31,696
State sources	13,670,607	557,712	14,228,319
Federal sources	226,675	4,059,119	4,285,794
Sixteenth section sources	463,778	63,378	527,156
Total Revenues	20,497,496	5,294,221	25,791,717
Expenditures:			
Instruction	12,058,363	2,157,060	14,215,423
Support services	7,700,906	1,319,411	9,020,317
Noninstructional services	1,900	2,190,855	2,192,755
Sixteenth section	62,435	31,330	93,765
Facilities acquisition and construction	851,692	108,202	959,894
Debt service:			
Principal	-	330,000	330,000
Interest	-	67,633	67,633
Total Expenditures	20,675,296	6,204,491	26,879,787
Excess (Deficiency) of Revenues over (under) Expenditures	(177,800)	(910,270)	(1,088,070)
Other Financing Sources (Uses):			
Insurance recovery	23,425	-	23,425
Sale of transportation equipment	14,500	-	14,500
Sale of other property	2,600	-	2,600
Operating transfers in	115,920	1,100,877	1,216,797
Operating transfers out	(1,100,877)	(115,920)	(1,216,797)
Total Other Financing Sources (Uses)	(944,432)	984,957	40,525
Net Change in Fund Balances	(1,122,232)	74,687	(1,047,545)
Fund Balances:			
July 1, 2014, as previously reported	2,696,196	4,785,646	7,481,842
Fund reclassification	3,078,091	(3,078,091)	-
July 1, 2014, as restated	5,774,287	1,707,555	7,481,842
Increase (Decrease) in reserve for inventory	-	(1,698)	(1,698)
June 30, 2015	\$ 4,652,055	1,780,544	\$ 6,432,599

The accompanying notes to financial statements are an integral part of these statements.

Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (1,047,545)

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

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

Capital outlay	\$ 1,387,601	
Depreciation expense	<u>(669,299)</u>	718,302

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

(80,747)

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

Payments of debt principal	330,000	
Accrued interest payable	<u>11,223</u>	341,223

4. The implementation of GASB 68 creates a change in the amount of pension expense that is reported on the statement of activities. A breakdown of these changes are listed below:

Pension contributions for the FYE 6/30/15 are reported as a deferred outflow	2,260,172	
Pension expense calculated during the implementation of GASB 68	<u>(1,963,056)</u>	297,116

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

Change in compensated absences	(8,216)	
Change in inventory reserve	<u>(1,698)</u>	(9,914)

Change in net position of governmental activities \$ 218,435

The accompanying notes to financial statements are an integral part of these statements.

**Louisville Municipal School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2015**

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 43,531	\$ 110,700
Investments	20,376	-
Total Assets	<u>63,907</u>	<u>\$ 110,700</u>
Liabilities		
Accounts payable and accrued liabilities	619	\$ -
Due to other governments	-	1,162
Due to student clubs	-	109,538
Total Liabilities	<u>619</u>	<u>\$ 110,700</u>
Net Position		
Reserved for endowments	63,288	
Total Net Position	<u>\$ 63,288</u>	

The accompanying notes to financial statements are an integral part of these statements.

**Louisville Municipal School District
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Year Ended June 30, 2015**

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 260
Total Additions	<u>260</u>
Deductions	
Scholarships awarded	1,940
Total Deductions	<u>1,940</u>
Change in Net Position	<u>(1,680)</u>
Net Position	
July 1, 2014	64,968
June 30, 2015	<u>\$ 63,288</u>

The accompanying notes to financial statements are an integral part of these statements.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

For financial reporting purposes, Louisville Municipal 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. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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 fund:

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.

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the payroll expenditure control cycle.

Accounts Payable Clearing Fund - This is a fiduciary fund that accounts for the assets and liabilities associated with the imprest clearing activities of the non-payroll expenditure control cycle.

Student Club Funds - These are fiduciary funds that account for the assets and liabilities associated with student club activities.

Various Scholarship Trust Funds are held by the district and used to fund scholarships for award winners.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

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

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

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

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 14 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The school district has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 14 for further details.

8. Compensated Absences

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

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Fund Balances

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

Governmental fund balance is classified as 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 School Board, the District's highest level of decision-making authority. This formal action is the resolution approved by the Board. Currently there is no committed fund balance for this school district.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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

Note 2 – Cash and Cash Equivalents and Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds was \$ 7,034,478 and the carrying amount of the school district's deposits with financial institutions reported in fiduciary funds was \$174,607, which includes \$20,376 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

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, 2015, none of the district's bank balance of \$7,875,672 was exposed to custodial credit risk.

Investments

As of June 30, 2015, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
Certificates of deposit	Less than 1	20,376
		<hr/>
Total		<u>\$ 20,376</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, 2015, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2015, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Certificates of Deposit - Regions Bank	\$ 5,176	25%
Certificates of Deposit - Citizen's Bank	15,200	75%

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 305,576
Other governmental funds	General Fund	38,230
General Fund	Agency Fund	<u>1,162</u>
Total		<u>\$ 344,968</u>

The primary purpose of the inter-fund balances is to eliminate deficit cash balances in pooled bank accounts caused by negative federal program fund cash flows and to recognize the effects of inter-fund loans between funds.

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 1,100,877
Other governmental funds	General Fund	<u>115,920</u>
Total		<u>\$ 1,216,797</u>

The transfers constitute transfers of indirect costs from special revenue funds to the General Fund and operating transfers between governmental funds.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$ 232,234 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 5 – Capital Assets

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

	Balance 7/1/2014	Increases	Decreases	Adjustments & Reclass	Balance 6/30/2015
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 279,607	\$ 20,408	\$ -	\$ -	300,015
Construction-in-progress	261,711	939,486	-	(615,565)	585,632
Total non-depreciable capital assets	541,318	959,894	-	(615,565)	885,647
Depreciable capital assets:					
Buildings	8,995,881	-	-	-	8,995,881
Building improvements	2,315,621	-	-	526,395	2,842,016
Improvements other than buildings	1,370,511	-	-	89,170	1,459,681
Mobile equipment	4,794,989	298,672	804,692	-	4,288,969
Furniture and equipment	1,405,678	129,035	27,772	-	1,506,941
Total depreciable capital assets	18,882,680	427,707	832,464	615,565	19,093,488
Less accumulated depreciation for:					
Buildings	4,906,642	137,389	-	-	5,044,031
Building improvements	472,405	113,681	-	-	586,086
Improvements other than buildings	273,077	58,387	-	-	331,464
Mobile equipment	3,372,718	229,495	724,223	-	2,877,990
Furniture and equipment	939,615	130,347	27,494	-	1,042,468
Total accumulated depreciation	9,964,457	669,299	751,717	-	9,882,039
Total depreciable capital assets, net	8,918,223	(241,592)	80,747	615,565	9,211,449
Governmental activities capital assets, net	\$ 9,459,541	\$ 718,302	\$ 80,747	\$ -	\$ 10,097,096

Adjustments represent completed construction during the year.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 273,294
Support services	267,006
Non-instructional	128,999
Total depreciation expense - Governmental activities	\$ 669,299

Construction in progress is composed of:

	Spent to June 30, 2015	Remaining Commitment
Governmental Activities:		
High School Gym Renovations	\$ 477,430	50,000
Safe Room Nanih Waiya	108,202	1,349,000
Total governmental activities	\$ 585,632	1,399,000

Construction projects included in governmental activities are funded with local funds.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. Three mill notes payable	\$ 1,823,000	\$ -	\$ 330,000	\$ 1,493,000	\$ 288,000
B. Compensated absences payable	202,362	15,797	7,581	210,578	-
Total	\$ 2,025,362	\$ 15,797	\$ 337,581	\$ 1,703,578	\$ 288,000

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note, Series 2008	3.71%	8/1/2008	8/1/2022	\$ 3,300,000	\$ 1,493,000

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

1. Three mill notes payable issue of August 1, 2008

Year Ending June 30	Principal	Interest	Total
2016	\$ 288,000	\$ 55,390	\$ 343,390
2017	190,000	44,706	234,706
2018	190,000	37,657	227,657
2019	160,000	30,608	190,608
2020	160,000	24,672	184,672
2021 - 2023	505,000	37,286	542,286
Total	\$ 1,493,000	\$ 230,319	\$ 1,723,319

The school district has pledged future state educational enhancements revenues for buildings and buses to help repay the \$3,500,000 three mill notes payable issued August 1, 2008. The bonds were issued to make improvements to the district's buildings. The debt will be paid in full and the pledge satisfied on August 1, 2022. The annual pledge is approximately \$85,865, which is approximately 100% of such state revenues. Total state educational enhancement revenues for buildings and buses was \$85,865 for the year ended June 30, 2015, while principal and interest requirements for the debt totaled \$397,633.

This debt will be retired from the Debt Service - Series 2008 Fund.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

B. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. 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, 2015 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, 2015, 2014 and 2013 were \$2,260,172, \$2,173,345 and \$1,945,962, respectively, which equaled the required contributions for each year.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school district reported a liability of \$27,432,262 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.226 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,963,056. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 427,935	\$ -
Net difference between projected and actual earnings on pension plan investments	-	3,976,508
Changes of assumptions	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	292,385	-
District contributions subsequent to the measurement date	2,260,172	-
Total	\$ <u>2,980,492</u>	\$ <u>3,976,508</u>

\$2,260,172 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (735,018)
2017	(735,018)
2018	(792,025)
2019	(994,127)
2020	-
Thereafter	-

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	100 %	

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District's proportionate share of the net pension liability	\$ 37,398,353	\$ 27,432,262	\$ 19,119,060

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2016	\$ 106,732
2017	125,217
2018	85,641
2019	84,333
2020	73,077
2021 - 2025	268,379
2026 - 2030	242,490
2031 - 2035	214,707
2036 - 2040	75,249
Total	\$ 1,275,825

Note 9 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (30,898,739)
Deferred outflows - contributions made during fiscal year 2014	<u>2,173,345</u>
Total prior period adjustment related to GASB 68 and 71	(28,725,394)
	-
Total	<u>\$ (28,725,394)</u>

Note 10 – Fund Reclassification

A fund reclassification in the amount of \$3,078,091 was needed to report Sixteenth Section Interest Funds, previously reported as Special Revenue Funds in prior years, as General Funds for fiscal year ended June 30, 2015.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 11 – Contingencies

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

Litigation –The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 12 – Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 77 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 13 – Insurance Loss Recoveries

The Louisville Municipal School District received \$23,425 in insurance loss recoveries related to damage incurred to school buses during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as changes for services and allocated 100% to the support services function.

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$23,986,801) includes the effect of deferring the recognition of expenses resulting from deferred outflow from pensions. The \$2,980,492 balance of the deferred outflow of resources at June 30, 2015 will be recognized as expenses and decrease unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$23,986,801) includes the effect of deferring the recognition of revenue resulting from deferred inflow from pensions. The \$3,976,508 balance of the deferred inflow of resources at June 30, 2015 will be recognized as revenue and increase unrestricted net position over the next 4 years.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Financial Statements

Note 15 - 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 Louisville Municipal School District evaluated the activity of the district through February 23, 2016 (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

- The board of education approved the lowest and best bid from Burks-Mordecai Builders, Inc. for \$1,349,000 to construct a storm shelter at the Nanih Waiya school.

REQUIRED SUPPLEMENTARY INFORMATION

**Louisville Municipal School District
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 6,023,283	\$ 6,136,406	\$ 6,136,436	\$ 113,123	\$ 30
State sources	13,710,977	13,670,607	13,670,607	(40,370)	-
Federal sources	356,538	226,675	226,675	(129,863)	-
Sixteenth section sources	-	464,001	463,778	464,001	(223)
Total Revenues	20,090,798	20,497,689	20,497,496	406,891	(193)
Expenditures:					
Instruction	12,203,576	12,058,363	12,058,363	145,213	-
Support services	8,066,162	7,700,906	7,700,906	365,256	-
Noninstructional services	2,000	1,900	1,900	100	-
Sixteenth section	27,280	62,435	62,435	(35,155)	-
Facilities acquisition and construction	-	851,692	851,692	(851,692)	-
Total Expenditures	20,299,018	20,675,296	20,675,296	(376,278)	-
Excess (Deficiency) of Revenues over (under) Expenditures	(208,220)	(177,607)	(177,800)	30,613	(193)
Other Financing Sources (Uses):					
Insurance recovery		23,425	23,425	23,425	-
Sale of transportation equipment	85,000	17,100	14,500	(67,900)	(2,600)
Sale of other property			2,600	-	2,600
Operating transfers in	2,355,128	3,394,284	115,920	1,039,156	(3,278,364)
Operating transfers out	(3,031,249)	(4,379,212)	(1,100,877)	(1,347,963)	3,278,335
Total Other Financing Sources (Uses)	(591,121)	(944,403)	(944,432)	(353,282)	(29)
Net Change in Fund Balances	(799,341)	(1,122,010)	(1,122,232)	(322,669)	(222)
Fund Balances:					
July 1, 2014, as previously reported	2,804,244	5,774,287	2,696,196	2,970,043	(3,078,091)
Fund reclassification			3,078,091	-	3,078,091
July 1, 2014, as restated	2,804,244	5,774,287	5,774,287	2,970,043	-
June 30, 2015	\$ 2,004,903	\$ 4,652,277	\$ 4,652,055	\$ 2,647,374	(222)

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

**Louisville Municipal School District
 Required Supplementary Information
 Schedule Of The District's Proportionate Share Of The Net Pension Liability
 PERS
 Last 10 Fiscal Years***

	<u>2015</u>
District's proportion of the net pension liability	\$ 27,432,262
District's proportionate share of the net pension liability (asset)	0.226%
District's covered-employee payroll	\$ 13,799,016
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	198.80%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

The schedule is presented to illustrate the requirement to show information for 10 years. However GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

**Louisville Municipal School District
 Required Supplementary Information
 Schedule of District Contributions
 PERS
 Last 10 Fiscal Years**

		<u>2015</u>
Contractually required contribution	\$	2,260,172
Contribution in relation to the contractually required contribution		2,260,172
Contribution deficiency (excess)		<u><u>-</u></u>
District's covered-employee payroll		14,350,287
Contributions as a percentage of covered-employee payroll		15.75%

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

The schedule is presented to illustrate the requirement to show information for 10 years. However GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

There were no changes of benefit terms for the FYE 6/30/2015.

(2) Changes of assumptions

There were no changes of assumptions for the FYE 6/30/2015.

SUPPLEMENTARY INFORMATION

**Louisville Municipal School District
Supplementary Information
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 467,745
National school lunch program	10.555	1,344,223
Summer food service program for children	10.559	73,153
Total child nutrition cluster		<u>1,885,121</u>
Total passed-through Mississippi Department of Education		<u>1,885,121</u>
Passed-through Winston County:		
National forest-dependent rural communities	10.670	12,527
Total passed-through Winston County		<u>12,527</u>
Total U.S. Department of Agriculture		<u>1,897,648</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	56,985
Total U.S. Department of Defense		<u>56,985</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	81,138
Total Federal Communications Commission		<u>81,138</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,187,463
Impact aid - facilities maintenance	84.040	20,508
Career and technical education - basic grants to states	84.048	45,031
Rural education	84.358	52,856
Improving teacher quality state grants	84.367	196,746
Subtotal		<u>1,502,604</u>
Special education cluster:		
Special education - grants to states	84.027	662,752
Special education - preschool grants	84.173	20,706
Total special education cluster		<u>683,458</u>
Total passed-through Mississippi Department of Education		<u>2,186,062</u>
Total U.S. Department of Education		<u>2,186,062</u>
Total for All Federal Awards		<u><u>\$ 4,221,833</u></u>

NOTES TO SCHEDULE

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

**Louisville Municipal School District
 Supplementary Information
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2015**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 19,872,568	14,684,632	719,335	1,394,527	3,074,074
Other	7,007,219	1,815,857	341,489	124,726	4,725,147
Total	<u>\$ 26,879,787</u>	<u>16,500,489</u>	<u>1,060,824</u>	<u>1,519,253</u>	<u>7,799,221</u>
Total number of students *	<u>2,835</u>				
Cost per student	<u>\$ 9,481</u>	<u>5,820</u>	<u>374</u>	<u>536</u>	<u>2,751</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers

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

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

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

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

OTHER INFORMATION

Louisville Municipal School District
Other Information
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 6,136,436	\$ 6,087,602	\$ 5,993,871	\$ 6,080,840
State sources	13,670,607	12,951,401	12,506,707	11,808,133
Federal sources	226,675	272,601	282,414	350,076
Sixteenth section sources	463,778	-	-	-
Total Revenues	20,497,496	19,311,604	18,782,992	18,239,049
Expenditures:				
Instruction	12,058,363	11,993,358	11,724,176	10,615,882
Support services	7,700,906	7,451,228	7,263,299	6,842,407
Noninstructional services	1,900	1,944	400	1,917
Sixteenth section	62,435	26,445	27,220	25,692
Facilities acquisition and construction	851,692	261,711	-	509,439
Debt service:				
Principal	-	-	-	7,621
Total Expenditures	20,675,296	19,734,686	19,015,095	18,002,958
Excess (Deficiency) of Revenues over (under) Expenditures	(177,800)	(423,082)	(232,103)	236,091
Other Financing Sources (Uses):				
Insurance recovery	23,425	-	-	25,914
Sale of transportation equipment	14,500	-	-	-
Sale of other property	2,600	83,410	-	-
Operating transfers in	115,920	729,033	355,241	410,849
Operating transfers out	(1,100,877)	(1,001,249)	(1,017,788)	(966,692)
Total Other Financing Sources (Uses)	(944,432)	(188,806)	(662,547)	(529,929)
Net Change in Fund Balances	(1,122,232)	(611,888)	(894,650)	(293,838)
Fund Balances:				
Beginning of period, as previously reported	2,696,196	3,308,084	4,202,734	4,496,572
Fund reclassification	3,078,091			
Beginning of period, as restated	5,774,287	3,308,084	4,202,734	4,496,572
End of Period	\$ 4,652,055	\$ 2,696,196	\$ 3,308,084	\$ 4,202,734

*SOURCE - PRIOR YEAR AUDIT REPORTS

Louisville Municipal School District
Other Information
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years
UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 6,718,752	\$ 6,733,321	\$ 6,646,209	\$ 6,724,537
Intermediate sources	31,696	-	-	-
State sources	14,228,319	13,564,749	13,030,931	12,365,294
Federal sources	4,285,794	4,415,626	4,735,464	5,070,863
Sixteenth section sources	527,156	310,541	251,170	689,610
Total Revenues	25,791,717	25,024,237	24,663,774	24,850,304
Expenditures:				
Instruction	14,215,423	14,471,598	14,428,838	13,519,491
Support services	9,020,317	8,719,166	8,652,510	8,425,725
Noninstructional services	2,192,755	2,024,780	1,973,959	1,865,612
Sixteenth section	93,765	82,693	123,493	120,862
Facilities acquisition and construction	959,894	261,711	-	509,439
Debt service:				
Principal	330,000	318,000	305,000	302,621
Interest	67,633	79,431	90,746	101,691
Total Expenditures	26,879,787	25,957,379	25,574,546	24,845,441
Excess (Deficiency) of Revenues over (under) Expenditures	(1,088,070)	(933,142)	(910,772)	4,863
Other Financing Sources (Uses):				
Insurance recovery	23,425	-	-	25,914
Sale of transportation equipment	14,500	-	-	-
Sale of other property	2,600	83,410	-	-
Operating transfers in	1,216,797	1,730,282	1,373,029	1,377,541
Operating transfers out	(1,216,797)	(1,730,282)	(1,373,029)	(1,377,541)
Total Other Financing Sources (Uses)	40,525	83,410	-	25,914
Net Change in Fund Balances	(1,047,545)	(849,732)	(910,772)	30,777
Fund Balances:				
Beginning of period, as previously reported	7,481,842	8,334,274	9,230,953	9,192,933
Prior period adjustments	-	-	-	(1,922)
Beginning of period, as restated	7,481,842	8,334,274	9,230,953	9,191,011
Increase (Decrease) in reserve for inventory	(1,698)	(2,700)	14,093	9,165
End of Period	\$ 6,432,599	\$ 7,481,842	\$ 8,334,274	\$ 9,230,953

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

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

To the Superintendent and School Board
 Louisville Municipal 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 the Louisville Municipal School District, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated February 23, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (**Finding 2015-1**).

Compliance and Other Matters

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

Louisville Municipal School District's Response to Findings

Louisville Municipal School District's response to the finding identified in our audit is described in the accompanying auditee's corrective action plan. Louisville Municipal School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
February 23, 2016

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

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

To the Superintendent and School Board
 Louisville Municipal School District

Report on Compliance for Each Major Federal Program

We have audited Louisville Municipal 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 Louisville Municipal School District's major federal programs for the year ended June 30, 2015. Louisville Municipal School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Louisville Municipal 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 Louisville Municipal School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Louisville Municipal School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Louisville Municipal School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Louisville Municipal 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 Louisville Municipal 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 Louisville Municipal 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, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questions Costs as **Finding 2015-2**, that we consider to be a significant deficiency.

Louisville Municipal School District's Response to Finding

Louisville Municipal School District's response to the finding identified in our audit is described in the accompanying auditee's corrective action plan. Louisville Municipal School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
February 23, 2016

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
Michael W. McCully, CPA	John N. Russell, CPA
Mort Stroud, CPA	Thomas A. Davis, CPA
R. Steve Sinclair, CPA	Anita L. Goodrum, CPA
Marsha L. McDonald, CPA	Ricky D. Allen, CPA
Wanda S. Holley, CPA	Jason D. Brooks, CPA
Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

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

Superintendent and School Board
 Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2015, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated February 23, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
February 23, 2016

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs**

Section I: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|--|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 3. | Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | | |
|----|---|------------|
| 4. | Internal control over major programs: | |
| a. | Material weakness(es) identified? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 5. | Type of auditors' 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? (Yes/No) | Yes |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.027/84.173	Special Education Cluster

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

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs**

Section II: Financial Statement Findings

Significant Deficiencies Not Considered To Be A Material Weakness

Finding 2015-1. Controls over approval of payroll supplements should be strengthened:

Management is responsible for establishing a proper internal control system to ensure strong financial accountability and safeguarding of assets.

During our tests of payroll expenditures we noted that the supplements for assistants to the band director were not approved in the minutes of the board meetings

Without proper approval of payroll supplements the risk is increased that unauthorized or inappropriate transactions could be processed, and the district personnel would not detect the problem while performing their normal duties.

Recommendation:

We recommend that all payroll supplements are approved by the board and spread upon the minutes to ensure that all payroll expenditures are paid within board approved amounts.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiencies Not Considered To Be A Material Weakness

Finding 2015-2. Controls over number of student applications verified should be strengthened.

Program: Child Nutrition Cluster, Passed-through the Mississippi Department of Education- CFDA
10.553, 10.555

Compliance requirement: Special Tests and Provisions - Verification

Management is responsible for establishing a proper internal control system to ensure compliance with program requirements.

During our review of the district's verification procedures we noted the district was to verify 15 student applications. The district actually verified 20 student applications. Program guidelines require the district to test the exact number of applications as determined by the sampling method selected by the district.

The error occurred due to a software error in calculating the number of applications to be verified and was not corrected by the school food service supervisor during the review of the sample selection.

Recommendation:

We recommend the district only verify the exact number of applications required by the sample selection method selected. We also recommend that the sample selection be reviewed by the school food service supervisor at the start of the verification process to ensure the sample complies with program guidelines.

**AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS**

Louisville Municipal School District

KEN MCMULLAN, Superintendent
P.O. BOX 909 - 112 S. COLUMBUS AVE.
LOUISVILLE, MISSISSIPPI 39339
PHONE (662) 773-3411 FAX (662) 773-4013

Auditee's Corrective Action Plan
For the Year Ended June 30, 2015

Finding 2015-01: Controls over approval of payroll supplements should be strengthened:

District Response:

- A. What corrective action will be taken? A meeting was held with the respective departments to discuss this finding. We discovered that this was an oversight and doesn't normally happen. We will be sure to have all supplements approved prior to the issuance of teaching contracts.
 - B. Who is responsible? Ken McMullan, Superintendent
 - C. When will the plan be implemented? Immediately.
-

Finding 2015-02: Controls over number of student applications verified should be strengthened.

District Response:

- A. What corrective action will be taken? School Food Service is required to perform verification on a selected number of meal applications annually. The software used by school food service calculates the number of applications required to be chosen for verification and generates a list of applications to be verified. The number of applications chosen for School Year 2014-2015 was calculated by the software to match the number of applications on file.

Louisville Municipal School District took meal applications on all children in August 2014, and two weeks after collecting and processing meal applications the district adopted The Community Eligibility Provision CEP. This provision allowed four schools to disregard the meal application status and feed each child attending those schools free. This provision was adopted for Fair Memorial, Louisville Elementary, Louisville High, and Eiland Middle Schools. Nanih Waiya and Noxapater continued to use meal applications.

Normally a school district would adopt CEP prior to the start of school eliminating applications for schools on the program. When verification was performed applications were on file for all schools because the program was not adopted at the start of school.

More applications were chosen than necessary because there was no process for the software to disregard the applications on file. Once applications were processed there was no way to delete applications and all children were considered for verification. Louisville Municipal School District was required to verify each application chosen. Mississippi Department of Education Child Nutrition and MCS Software worked with the food service supervisor to lower the number of applications. There was no way to choose which applications chosen should be verified and which ones could be released from verification. All families chosen for verification were notified and the applications were verified.

This was a one time process that could not be avoided. The applications were on file prior to adopting CEP and there was no way to reduce the number of applications chosen for verification for the 2014-2015 school year.

Now that the CEP program is in place Louisville Municipal School District does not take meal applications from any schools participating in the program. Meal applications are only processed for non CEP schools. Nanih Waiya and Noxapater Schools are the only two schools who do not participate in CEP.

The verification process will only pick applications from the two schools collecting meal applications and the software will work correctly choosing only the required number of applications to be verified.

- B. Who is responsible? Sheila Reed, School Food Service Supervisor, Ken McMullan, Superintendent
 - C. When will the plan be implemented? This has been corrected.
-

Louisville Municipal School District

KEN McMULLAN, Superintendent
P.O. BOX 909 - 112 S. COLUMBUS AVE.
LOUISVILLE, MISSISSIPPI 39339
PHONE (662) 773-3411 FAX (662) 773-4013

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Financial and Compliance Audit Division

As required by Section _____.315(b) of OMB Circular A-133, Louisville Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2014:

<u>Finding</u>	<u>Status</u>
2014-01	Corrected
2014-02	Corrected

Sincerely,

Ken McMullan, Superintendent