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NESHOBA COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2015

NESHOBA COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT



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

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INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Neshoba County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Neshoba County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Neshoba County 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.

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, 46-48, 49 and 50, 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 Neshoba County 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 January 8, 2016, on our consideration of the Neshoba County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Neshoba County School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
January 8, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

NESHOPA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

The following discussion and analysis of Neshoba County 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 financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$29,181,889, including a prior period adjustment of (\$28,402,755), which represents a 144.9% decrease from fiscal year 2014. Total net position for 2014 decreased \$641,411, which represents a 3.1% decrease from fiscal year 2013.
- General revenues amounted to \$19,976,442 and \$19,422,895, or 80% and 80% 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 \$5,058,994, or 20% of total revenues for 2015, and \$4,845,763, or 20% of total revenues for 2014.
- The District had \$25,814,570 and \$24,910,069 in expenses for fiscal years 2015 and 2014; only \$5,058,994 for 2015 and \$4,845,763 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,976,442 for 2015 and \$19,422,895 for 2014 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$19,858,674 in revenues and \$21,277,640 in expenditures for 2015, and \$18,636,750 in revenues and \$19,505,958 in expenditures in 2014. The General Fund's fund balance increased by \$737,516, including a fund reclassification of \$2,828,266 and a prior period adjustment of \$837, from 2014 to 2015, and decreased by \$1,070,615 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$163,962 for 2015 and decreased by \$548,481 for 2014. The increase for 2015 was due to the addition of land.
- Long-term debt, including the liability for compensated absences, decreased by \$399,884 for 2015 and decreased by \$182,868 for 2014. This decrease for 2015 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$21,874 for 2015 and increased by \$5,541 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 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.

NESHOPA COUNTY 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:

NESHOPA COUNTY 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 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 financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District 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 \$9,038,722 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.

NESHOBA COUNTY 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	\$ 6,700,120	\$ 8,716,628	-23.13 %
Restricted assets	1,065,266	852,830	24.91 %
Capital assets, net	16,298,983	16,135,021	1.02 %
Total assets	<u>24,064,369</u>	<u>25,704,479</u>	-6.38 %
Deferred outflows of resources	<u>2,946,684</u>		N/A %
Current liabilities	412,759	524,034	-21.23 %
Long-term debt outstanding	4,637,394	5,037,278	-7.94 %
Net pension liability	27,074,915		N/A %
Total liabilities	<u>32,125,068</u>	<u>5,561,312</u>	477.65 %
Deferred inflows of resources	<u>3,924,707</u>		N/A %
Net position:			
Net investment in capital assets	11,883,162	11,297,442	5.18 %
Restricted	2,493,251	4,956,948	-49.70 %
Unrestricted	(23,415,135)	3,888,777	-702.12 %
Total net position (deficit)	<u>\$ (9,038,722)</u>	<u>\$ 20,143,167</u>	-144.87 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (23,415,135)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	28,052,938
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 4,637,803</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 \$163,962.
- The principal retirement of \$421,758 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$25,035,436 and \$24,268,658, respectively. The total cost of all programs and services was \$25,814,570 for 2015 and \$24,910,069 for 2014.

NESHOPA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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</u> <u>June 30, 2015</u>	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 756,004	\$ 805,252	(6.12) %
Operating grants and contributions	4,302,990	4,040,511	6.50 %
General revenues:			
Property taxes	3,176,667	3,079,201	3.17 %
Grants and contributions not restricted	15,906,837	15,364,593	3.53 %
Investment earnings	15,422	22,493	(31.44) %
Sixteenth section sources	765,062	714,398	7.09 %
Other	112,454	242,210	(53.57) %
Total revenues	<u>25,035,436</u>	<u>24,268,658</u>	3.16 %
Expenses:			
Instruction	14,240,898	15,395,271	(7.50) %
Support services	7,484,249	7,525,267	(0.55) %
Non-instructional	1,594,206	1,665,765	(4.30) %
Sixteenth section	331,953	86,802	282.43 %
Pension expense	1,923,596		N/A %
Interest on long-term liabilities	239,668	236,964	1.14 %
Total expenses	<u>25,814,570</u>	<u>24,910,069</u>	3.63 %
Increase (Decrease) in net position	<u>(779,134)</u>	<u>(641,411)</u>	(21.47) %
Net Position, July 1, as previously reported	<u>20,143,167</u>	<u>20,784,578</u>	(3.09) %
Prior Period Adjustment	<u>(28,402,755)</u>		N/A %
Net Position (Deficit), July 1, as restated	<u>(8,259,588)</u>	<u>20,784,578</u>	(139.74) %
Net Position (Deficit), June 30	<u>\$ (9,038,722)</u>	<u>\$ 20,143,167</u>	(144.87) %

Governmental activities

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

NESHOBA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 14,240,898	\$ 15,395,271	(7.50) %
Support services	7,484,249	7,525,267	(0.55) %
Non-instructional	1,594,206	1,665,765	(4.30) %
Sixteenth section	331,953	86,802	282.43 %
Pension Expense	1,923,596		N/A %
Interest on long-term liabilities	239,668	236,964	1.14 %
Total expenses	<u>\$ 25,814,570</u>	<u>\$ 24,910,069</u>	3.63 %
	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2014</u>	
Instruction	\$ (11,911,636)	\$ (13,256,508)	(10.14) %
Support services	(6,752,081)	(6,765,519)	(0.20) %
Non-instructional	137,795	23,711	481.14 %
Sixteenth section	(219,067)	18,132	(1,308.18) %
Pension Expense	(1,923,596)		N/A %
Interest on long-term liabilities	(86,991)	(84,122)	3.41 %
Total net (expense) revenue	<u>\$ (20,755,576)</u>	<u>\$ (20,064,306)</u>	3.45 %

- Net cost of governmental activities (\$20,755,576 for 2015 and \$20,064,306 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$3,176,667 for 2015 and \$3,079,201 for 2014) and state and federal revenues (\$15,906,837 for 2015 and \$15,364,593 for 2014). In addition, there was \$765,062 and \$714,398 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$15,422 for 2015 and \$22,493 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.

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 \$7,468,363, a decrease of \$1,696,235, which includes a prior period adjustment of \$842 and an increase in inventory of \$9,447. \$4,473,604, or 60%, 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 \$2,994,759 or 40% 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.

NESHOPA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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 \$737,516, which includes a fund reclassification of \$2,828,266 and a prior period adjustment of \$837. The fund balance of Other Governmental Funds showed a decrease in the amount of \$2,642,137, which includes a fund reclassification of (\$2,828,266), a prior period adjustment of \$5, and an increase in reserve for inventory of \$9,447. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I-A Basic Fund	no increase or decrease
EHA, Part B Grant Fund	no increase or decrease
Qualified School Construction Fund \$	208,386

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$27,881,584, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$861,054 from 2014. Total accumulated depreciation as of June 30, 2015, was \$11,582,601, and total depreciation expense for the year was \$894,477, resulting in total net capital assets of \$16,298,983.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 783,993	\$ 337,443	132.33 %
Construction in Progress	259,460		N/A %
Buildings	12,409,491	12,853,901	(3.46) %
Improvements other than buildings	1,158,742	1,259,838	(8.02) %
Mobile equipment	1,434,479	1,368,024	4.86 %
Furniture and equipment	202,211	216,088	(6.42) %
Leased property under capital leases	50,607	99,727	(49.25) %
Total	<u>\$ 16,298,983</u>	<u>\$ 16,135,021</u>	1.02 %

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

NESHOPA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Debt Administration. At June 30, 2015, the District had \$4,637,394 in outstanding long-term debt, of which \$437,949 is due within one year. The liability for compensated absences increased \$21,874 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 1,200,000	\$ 1,470,000	(18.37) %
Obligations under capital leases	98,173	161,056	(39.04) %
Obligations under energy efficiency leases	117,648	206,523	(43.03) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	221,573	199,699	10.95 %
Total	\$ 4,637,394	\$ 5,037,278	(7.94) %

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

CURRENT ISSUES

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

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

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

Enrollment for the 2014-2015 year increased by 1% to 3,018 students.

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 Neshoba County School District, 401 East Beacon Street, Suite 102, Philadelphia, MS 39350.

FINANCIAL STATEMENTS

NESHOBA COUNTY SCHOOL DISTRICT

Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 5,924,472
Due from other governments	747,209
Other receivables, net	6,164
Inventories	22,275
Restricted assets	1,065,266
Capital assets, non-depreciable:	
Land	783,993
Construction in progress	259,460
Capital assets, net of accumulated depreciation:	
Buildings	12,409,491
Improvements other than buildings	1,158,742
Mobile equipment	1,434,479
Furniture and equipment	202,211
Leased property under capital leases	50,607
Total Assets	24,064,369
Deferred Outflows of Resources	
Deferred outflows - Pensions	2,946,684
Total Deferred Outflows of Resources	2,946,684
Liabilities	
Accounts payable and accrued liabilities	296,843
Unearned revenue	180
Interest payable on long-term liabilities	115,736
Long-term liabilities, due within one year:	
Capital related liabilities	437,949
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,977,872
Non-capital related liabilities	221,573
Net pension liability	27,074,915
Total Liabilities	32,125,068
Deferred Inflows of Resources	
Deferred inflows - Pensions	3,924,707
Total Deferred Inflows of Resources	3,924,707
Net Position	
Net investment in capital assets	11,883,162
Restricted for:	
Expendable:	
School-based activities	1,023,611
Debt service	1,010,805
Capital improvements	2,000
Forestry improvements	300,958
Unemployment benefits	50,740
Non-expendable:	
Sixteenth section	105,137
Unrestricted	(23,415,135)
Total Net Position (Deficit)	\$ (9,038,722)

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

NESHOBA COUNTY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2015

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Governmental Activities:				
Instruction	\$ 14,240,898	\$ 241,669	\$ 2,087,593	\$ (11,911,636)
Support services	7,484,249	12,253	719,915	(6,752,081)
Non-instructional	1,594,206	389,196	1,342,805	137,795
Sixteenth section	331,953	112,886		(219,067)
Pension expense	1,923,596			(1,923,596)
Interest on long-term liabilities	239,668		152,677	(86,991)
Total Governmental Activities	\$ 25,814,570	\$ 756,004	\$ 4,302,990	\$ (20,755,576)

General Revenues:

Taxes:

General purpose levies 3,176,667

Unrestricted grants and contributions:

State 15,490,058

Federal 416,779

Unrestricted investment earnings 15,422

Sixteenth section sources 765,062

Other 112,454

Total General Revenues 19,976,442

Change in Net Position (779,134)

Net Position - Beginning, as previously reported 20,143,167

Prior Period Adjustments (28,402,755)

Net Position (Deficit) - Beginning, as restated (8,259,588)

Net Position (Deficit) - Ending \$ (9,038,722)

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

NESHOBA COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2015

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I-A Basic Fund	EHA, Part B Grant Fund	Qualified School Construction Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 4,568,589				\$ 1,461,020	\$ 6,029,609
Cash with fiscal agents					149,117	149,117
Investments				811,012		811,012
Due from other governments	251,082	158,471	91,222		246,434	747,209
Other receivables, net	6,164					6,164
Due from other funds	295,634					295,634
Inventories					22,275	22,275
Total assets	5,121,469	158,471	91,222	811,012	1,878,846	8,061,020
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 261,913	\$ 289	\$ 8		\$ 34,633	\$ 296,843
Due to other funds		158,182	91,214		46,238	295,634
Unearned revenue	180					180
Total Liabilities	262,093	158,471	91,222		80,871	592,657
Fund Balances:						
Nonspendable:						
Inventory					22,275	22,275
Permanent fund principal					105,137	105,137
Restricted:						
Debt service				811,012	315,529	1,126,541
Capital projects					2,000	2,000
Forestry improvement purposes					300,958	300,958
Grant activities	49,437				1,001,336	1,050,773
Unemployment benefits					50,740	50,740
Assigned:						
Student activities	311,548					311,548
Building improvements	24,787					24,787
Unassigned	4,473,604					4,473,604
Total Fund Balances	4,859,376			811,012	1,797,975	7,468,363
Total Liabilities and Fund Balances	\$ 5,121,469	\$ 158,471	\$ 91,222	\$ 811,012	\$ 1,878,846	\$ 8,061,020

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

NESHOBA COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015**

Exhibit C-1

Total fund balances for governmental funds \$ 7,468,363

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	\$	783,993	
Construction in progress		259,460	
Buildings		19,214,301	
Improvements other than buildings		2,649,440	
Mobile equipment		3,994,152	
Furniture and equipment		831,391	
Leased property under capital leases		148,847	
Accumulated depreciation		<u>(11,582,601)</u>	16,298,983

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 (27,074,915)

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		2,946,684	
Deferred inflows of resources related to pensions		<u>(3,924,707)</u>	(28,052,938)

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:

Limited obligation bonds		(1,200,000)	
Obligations under energy efficiency lease		(117,648)	
Qualified school construction bonds		(3,000,000)	
Capital lease obligations		(98,173)	
Compensated absences		(221,573)	
Accrued interest payable		<u>(115,736)</u>	(4,753,130)

Net position (deficit) of governmental activities \$ (9,038,722)

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

NESHOBA COUNTY SCHOOL DISTRICT

Governmental Funds

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

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Title I-A Basic Fund	EHA, Part B Grant Fund	Qualified School Construction Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 3,547,466			\$ 7,093	\$ 389,727	\$ 3,944,286
State sources	15,126,397				882,251	16,008,648
Federal sources	416,779	1,134,617	719,783	152,677	1,777,323	4,201,179
Sixteenth section sources	768,032				113,291	881,323
Total Revenues	19,858,674	1,134,617	719,783	159,770	3,162,592	25,035,436
Expenditures:						
Instruction	13,009,802	853,105	392,948		1,151,036	15,406,891
Support services	7,321,056	210,520	325,856		138,267	7,995,699
Noninstructional services	500	48,634	979		1,603,424	1,653,537
Sixteenth section	240,272				91,681	331,953
Facilities acquisition and construction	706,010					706,010
Debt service:						
Principal					421,758	421,758
Interest				180,900	59,156	240,056
Other				1,950	1,100	3,050
Total Expenditures	21,277,640	1,112,259	719,783	182,850	3,466,422	26,758,954
Excess (Deficiency) of Revenues over (under) Expenditures	(1,418,966)	22,358		(23,080)	(303,830)	(1,723,518)
Other Financing Sources (Uses):						
Insurance recovery	7,522					7,522
Payment to escrow agent				(201,300)		(201,300)
Payment held by escrow agent				201,300		201,300
Sale of transportation equipment	9,472					9,472
Operating transfers in	33,996			231,466	492,145	757,607
Operating transfers out	(723,611)	(22,358)			(11,638)	(757,607)
Total Other Financing Sources (Uses)	(672,621)	(22,358)		231,466	480,507	16,994
Net Change in Fund Balances	(2,091,587)			208,386	176,677	(1,706,524)
Fund Balances:						
July 1, 2014, as previously reported	4,121,860			602,626	4,440,112	9,164,598
Fund Reclassification	2,828,266				(2,828,266)	
Prior period adjustments	837				5	842
July 1, 2014, as restated	6,950,963			602,626	1,611,851	9,165,440
Increase (Decrease) in reserve for inventory					9,447	9,447
June 30, 2015	\$ 4,859,376			\$ 811,012	\$ 1,797,975	\$ 7,468,363

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

NESHOBA COUNTY SCHOOL DISTRICT
Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds **\$ (1,706,524)**

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	\$ 1,086,540	
Depreciation expense	<u>(894,477)</u>	192,063

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. (28,200)

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 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	421,758	
Accrued interest payable	<u>3,438</u>	425,196

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

Change in compensated absences	(21,874)	
Change in inventory reserve	9,447	
District pension contributions subsequent to measurement date	2,274,354	
Pension expense	<u>(1,923,596)</u>	338,331

Change in net position of governmental activities **\$ (779,134)**

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

NESHOBA COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Net Position
June 30, 2015

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 52,641	\$ 1,320,728
Total Assets	<u>52,641</u>	<u>\$ 1,320,728</u>
Liabilities		
Accounts payable and accrued liabilities		\$ 1,220,701
Due to student clubs		100,027
Total Liabilities		<u>\$ 1,320,728</u>
Net Position		
Reserved for endowments	<u>52,641</u>	
Total Net Position	<u>\$ 52,641</u>	

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

NESHOBA COUNTY 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	\$ 54
Total Additions	<u>54</u>
Deductions	
Scholarships awarded	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Position	<u>(946)</u>
Net Position	
July 1, 2014	<u>53,587</u>
June 30, 2015	<u>\$ 52,641</u>

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

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

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. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The school district reports the following major governmental funds:

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

Title I-A Basic Fund – This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title I grants to local education agencies program.

EHA, Part B Grant Fund – This is a special revenue fund that accounts for expenditures and related revenues associated with a federal award that provides supplemental services for special needs students.

Qualified School Construction Fund – This is a debt service fund that accounts for the activity related to the Qualified School Construction Bond.

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

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:

Watson Scholarship Fund – This is a private purpose trust fund to account for endowments.

Partridge Scholarship Fund – This is a private purpose trust fund to account for endowments.

Payroll Clearing Fund – This is the District's clearing fund used for payments of payroll and benefits.

High School Agency Fund – This is the District's fund to record assets and liabilities of the high school's various student clubs.

Middle School Agency Fund – This is the District's fund to record assets and liabilities of the middle school's various student clubs.

Elementary Agency Fund – This is the District's fund to record assets and liabilities of the elementary school's various student clubs.

Salary Deduction Fund – This is the District's fund to record assets and liabilities of the District's salary deductions.

Accounts Payable Clearing Fund – This is the District's clearing fund used to pay claims of the District.

Additionally, the school district reports the following fund types:

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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.

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

The following schedule details the capitalization thresholds:

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

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

7. 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 District has a deferred outflow related to pensions in accordance with GASB 68.

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 District has a deferred inflow related to pensions in accordance with GASB 68.

See Note 8 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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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. 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 School District business manager pursuant to authorization established by official School Board policy.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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, Cash with Fiscal Agents, and Investments

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,029,609 and \$1,373,369, respectively.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

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

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 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$149,117.

Investments

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

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
QSCB Construction Bonds Common Trust Funds 2012-A	Aaa	Varies; 5 year average	\$ 811,012
Total			<u>\$ 811,012</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.

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>
QSCB Construction Bonds Common Trust Funds 2012-A	\$ 811,012	100%

NESHOBA COUNTY 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

Receivable Fund	Payable Fund	Amount
General Fund	Title I-A Basic Fund	\$ 158,182
	EHA, Part B Grant Fund	91,214
	Other governmental funds	46,238
Total		\$ 295,634

The purpose of the interfund receivables and payables is to close-out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Qualified School Construction Fund	\$ 231,466
	Other governmental funds	492,145
Title I-A Basic Fund	General Fund	22,358
Other governmental funds	General Fund	11,638
Total		\$ 757,607

The purpose of the interfund transfers is to provide funds for debt payments, to transfer federal program indirect costs to the General Fund, and to close-out federal program funds at year end.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$105,137, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash with fiscal agent balance, totaling \$149,117, of the MAEP Limited Obligation Bond/Note Fund. In addition, the restricted assets represent the investment balance, totaling \$811,012, of the QSCB Bond Retirement Fund.

NESHOBA COUNTY 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	Adjustment	Balance 6/30/2015
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 337,443	\$ 446,550			\$ 783,993
Construction-in-progress		259,460			259,460
Total non-depreciable capital assets	<u>337,443</u>	<u>706,010</u>			<u>1,043,453</u>
<u>Depreciable capital assets:</u>					
Buildings	19,214,301				19,214,301
Improvements other than buildings	2,649,440				2,649,440
Mobile equipment	3,879,113	319,137	204,098		3,994,152
Furniture and equipment	791,386	61,393	31,329	9,941	831,391
Leased property under capital leases	148,847				148,847
Total depreciable capital assets	<u>26,683,087</u>	<u>380,530</u>	<u>235,427</u>	<u>9,941</u>	<u>26,838,131</u>
<u>Less accumulated depreciation for:</u>					
Buildings	6,360,400	444,410			6,804,810
Improvements other than buildings	1,389,602	101,096			1,490,698
Mobile equipment	2,511,089	232,272	183,688		2,559,673
Furniture and equipment	575,298	67,579	23,539	9,842	629,180
Leased property under capital leases	49,120	49,120			98,240
Total accumulated depreciation	<u>10,885,509</u>	<u>894,477</u>	<u>207,227</u>	<u>9,842</u>	<u>11,582,601</u>
Total depreciable capital assets, net	<u>15,797,578</u>	<u>(513,947)</u>	<u>28,200</u>	<u>99</u>	<u>15,255,530</u>
Governmental activities capital assets, net	<u>\$ 16,135,021</u>	<u>\$ 192,063</u>	<u>\$ 28,200</u>	<u>\$ 99</u>	<u>\$ 16,298,983</u>

An adjustment was made during the year to correct a prior period error in fixed assets.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 447,965
Support services	432,787
Non-instructional	13,725
Total depreciation expense - Governmental activities	<u>\$ 894,477</u>

Construction in progress is composed of:

	Spent to June 30, 2015	Remaining Commitment
Governmental Activities:		
New High School	\$ 259,460	\$ 988,741
Total construction in progress	<u>\$ 259,460</u>	<u>\$ 988,741</u>

Construction projects included in governmental activities are funded with general funds revenue.

NESHOBA COUNTY 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
B. Limited obligation bonds payable	\$ 1,470,000		\$ 270,000	\$ 1,200,000	\$ 285,000
G. Obligations under capital leases	161,056		62,883	98,173	59,434
H. Obligations under energy efficiency leases	206,523		88,875	117,648	93,515
K. Qualified school construction bonds payable	3,000,000			3,000,000	
M. Compensated absences payable	199,699	21,874		221,573	
Total	\$ 5,037,278	\$ 21,874	\$ 421,758	\$ 4,637,394	\$ 437,949

A. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding	3%-4%	2/1/2010	2/1/2018	\$ 2,430,000	\$ 1,200,000
Total				\$ 2,430,000	\$ 1,200,000

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

- Limited obligation bond issue of February 1, 2010:

Year Ending June 30	Principal	Interest	Total
2016	\$ 285,000	\$ 38,120	\$ 323,120
2017	290,000	29,423	319,423
2018	625,000	19,000	644,000
Total	\$ 1,200,000	\$ 86,543	\$ 1,286,543

This debt will be retired from the MAEP Paying Agent fund.

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

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

B. Obligations under capital leases

The school district has entered into a lease agreement as lessee for financing the acquisition of a wireless system and technology upgrade at a cost of \$191,752. This lease qualifies as a capital lease for accounting purposes.

The various options available to the lessee for this lease are as follows:

1. The School District to purchase the equipment at the end of the lease term for \$1.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Wireless system & technology upgrade	3.20%	11/7/2013	1/7/2017	\$ 191,752	\$ 98,173
Total				<u>\$ 191,752</u>	<u>\$ 98,173</u>

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2016	\$ 59,434	\$ 2,092	\$ 61,526
2017	38,739	414	39,153
Total	<u>\$ 98,173</u>	<u>\$ 2,506</u>	<u>\$ 100,679</u>

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

This debt will be retired from the Capital Lease Fund.

C. Obligations under energy efficiency leases

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Energy efficiency lease	5.10%	9/25/2001	9/25/2016	\$ 1,000,000	\$ 117,648
Total				<u>\$ 1,000,000</u>	<u>\$ 117,648</u>

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

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

Obligations under energy efficiency leases issue of September 25, 2001:

Year Ending June 30	Principal	Interest	Total
2016	\$ 93,515	\$ 3,834	\$ 97,349
2017	24,133	204	24,337
Total	<u>\$ 117,648</u>	<u>\$ 4,038</u>	<u>\$ 121,686</u>

This debt will be retired from the Energy Efficiency Lease Fund.

An energy efficiency lease agreement dated September 25, 2001, was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$1,000,000 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the Energy Efficiency Lease Fund and not exceed fifteen (15) years.

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

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

D. Qualified school construction bonds payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construction Bond	6.03%	12/17/2010	12/17/2025	\$ 3,000,000	\$ 3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

E. 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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 7 – Other Commitments

The school district has several operating leases for the following:

1. Twelve copy machines
2. One postage meter
3. Fax Board Kit
4. Driver's education vehicle

Lease expenditures for the year ended June 30, 2015, amounted to \$40,558.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2016	\$ 30,836
2017	28,271
2018	17,193
2019	598
Total	<u>\$ 76,898</u>

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 8 – 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 \$2,274,354, \$2,146,705 and \$1,921,675, respectively, which equaled the required contributions for each year.

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 \$27,074,915 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 contributions to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.223056 percent.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2015, the District recognized pension expense of \$1,923,596. 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	\$ 422,361	
Net difference between projected and actual earnings on pension plan investments		3,924,707
Change in proportionate share	249,969	
District contributions subsequent to the measurement date	2,274,354	
Total	\$ <u>2,946,684</u>	\$ <u>3,924,707</u>

\$2,281,492 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	\$ (739,331)
2017	(739,331)
2018	(792,538)
2019	(981,177)
Total	\$ <u>(3,252,377)</u>

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.

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:

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 8 – Defined Benefit Pension Plan (Continued)

<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	\$ 36,911,182	\$ 27,074,915	\$ 18,870,004

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

Note 9 – Sixteenth Section Lands

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

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 9 – Sixteenth Section Lands (Continued)

Year Ending June 30	Amount
2016	\$ 111,380
2017	106,735
2018	106,130
2019	74,291
2020	74,291
2021 – 2025	364,865
2026 – 2030	308,675
2031 – 2035	250,847
2036 - 2040	149,703
Thereafter	142,317
Total	<u>\$ 1,689,234</u>

Note 10 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (30,550,401)
Deferred outflows - contributions made during fiscal year 2014	<u>2,146,705</u>
Total prior period adjustment related to GASB 68 and 71	(28,403,696)
2. To correct prior period error in recording capital assets	99
3. To void prior year outstanding checks	<u>842</u>
Total	<u>\$ (28,402,755)</u>

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

Fund	Explanation	Amount
General Fund	To void prior year outstanding checks	\$ 837
Other governmental funds	To void prior year outstanding checks	<u>5</u>
Total		<u>\$ 842</u>

NESHOBA COUNTY 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 – Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2015, the subsidy payments amounted to \$152,677.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 13 – Qualified School Construction Bonds (Continued)

The school district makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2015 was \$811,012. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2016	\$ 201,300
2017	201,300
2018	201,300
2019	201,300
2020	201,300
2021 – 2025	1,006,500
2026	181,800
Total	<u>\$ 2,194,800</u>

Note 14 – Alternative School Consortium

The school district entered into an Alternative School Agreement dated November 23, 1993, creating the East Central Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Union Public School District, Scott County School District, Forest Municipal School District, Neshoba County School District, Newton Municipal School District and Newton County School District.

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

The Union Public School District has been designated as the lead school district for the East Central Alternative School, and the operations of the consortium are included in its financial statements.

Note 15 – Vocational School Consortium

The school district entered into a Vocational Educational Agreement dated August 17, 1982, creating the Philadelphia-Neshoba Vocational-Technical Center. This consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Neshoba County School District, Philadelphia Public School District and East Central Community College.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements

Note 15 – Vocational School Consortium (Continued)

East Central Community College has been designated as the fiscal agent for the Philadelphia-Neshoba Vocational-Technical Center, and the operations of the consortium are included in its financial statements.

Note 16 - Insurance loss recoveries

The Neshoba County School District received \$7,522 in insurance loss recoveries related to property damage during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as a reduction in expenditures and allocated among the expense functions based on the following percentages:

Insurance Loss			
Recoveries	Percentage	Expense Function	
\$ 7,522	100%	Support services	
<u>\$ 7,522</u>	<u>100%</u>		

Note 17 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$23,415,135) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$2,946,684 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 (\$23,415,135) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$3,924,707 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.

Note 18 - 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 Neshoba County School District evaluated the activity of the district through January 8, 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 financial statements:

On August 11, 2015 voters from the Neshoba County School District passed a \$14 million dollar bond issue for the purpose of purchasing, erecting, repairing, equipping, remodeling and enlarging school buildings and related facilities. After the year end June 30, 2015, but before the date of this report, January 8, 2016, the district has borrowed \$9 million of the \$14 million of the approved bond issue. The expected total cost of purchasing, erecting, repairing, equipping, remodeling and enlarging school buildings and related facilities is \$23.4 million. The remaining \$9.4 million dollars will come from school district funds. As of the date of this report, January 8, 2016, the only contracts entered into by the district are for architect and construction manager. Bids for the first phase of construction will not be awarded until subsequent to the date of this report.

REQUIRED SUPPLEMENTARY INFORMATION

NESHOPA COUNTY 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	\$ 3,877,918	\$ 3,689,735	\$ 3,547,466	\$ (188,183)	\$ (142,269)
State sources	15,219,950	15,133,914	15,126,397	(86,036)	(7,517)
Federal sources	1,808,000	418,859	416,779	(1,389,141)	(2,080)
Sixteenth section sources		768,032	768,032	768,032	
Total Revenues	20,905,868	20,010,540	19,858,674	(895,328)	(151,866)
Expenditures:					
Instruction	13,446,532	13,113,449	13,009,802	333,083	103,647
Support services	7,770,673	7,828,616	7,321,056	(57,943)	507,560
Noninstructional services	2,000	500	500	1,500	
Sixteenth section		240,272	240,272	(240,272)	
Facilities acquisition and construction		259,460	706,010	(259,460)	(446,550)
Total Expenditures	21,219,205	21,442,297	21,277,640	(223,092)	164,657
Excess (Deficiency) of Revenues over (under) Expenditures	(313,337)	(1,431,757)	(1,418,966)	(1,118,420)	12,791
Other Financing Sources (Uses):					
Insurance recovery	5,000	7,522	7,522	2,522	
Sale of transportation equipment	20,000	9,472	9,472	(10,528)	
Operating transfers in	2,393,305	3,166,391	33,996	773,086	(3,132,395)
Other financing sources	5,000			(5,000)	
Operating transfers out	(3,023,215)	(3,851,786)	(723,611)	(828,571)	3,128,175
Total Other Financing Sources (Uses)	(599,910)	(668,401)	(672,621)	(68,491)	(4,220)
Net Change in Fund Balances	(913,247)	(2,100,158)	(2,091,587)	(1,186,911)	8,571
Fund Balances:					
July 1, 2014, as previously reported	5,192,475	6,950,963	4,121,860	1,758,488	(2,829,103)
Fund Reclassification			2,828,266		2,828,266
Prior period adjustments			837		837
July 1, 2014, as restated	5,192,475	6,950,963	6,950,963	1,758,488	
June 30, 2015	\$ 4,279,228	\$ 4,850,805	\$ 4,859,376	\$ 571,577	\$ 8,571

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

NESHOBA COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
Title I-A Basic 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:					
Federal sources	\$ 914,482	\$ 1,304,317	\$ 1,134,617	\$ 389,835	\$ (169,700)
Total Revenues	914,482	1,304,317	1,134,617	389,835	(169,700)
Expenditures:					
Instruction	622,807	960,016	853,105	(337,209)	106,911
Support services	214,276	262,058	210,520	(47,782)	51,538
Noninstructional services	44,371	55,664	48,634	(11,293)	7,030
Total Expenditures	881,454	1,277,738	1,112,259	(396,284)	165,479
Excess (Deficiency) of Revenues over (under) Expenditures	33,028	26,579	22,358	(6,449)	(4,221)
Other Financing Sources (Uses):					
Operating transfers out	(33,028)	(26,579)	(22,358)	6,449	4,221
Total Other Financing Sources (Uses)	(33,028)	(26,579)	(22,358)	6,449	4,221
Net Change in Fund Balances					
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -

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

NESHOBA COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
EHA, Part B Grant Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variances	
				Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 850,000	\$ 833,254	\$ 719,783	\$ (16,746)	\$ (113,471)
Total Revenues	850,000	833,254	719,783	(16,746)	(113,471)
Expenditures:					
Instruction	536,730	468,403	392,948	68,327	75,455
Support services	310,770	363,351	325,856	(52,581)	37,495
Noninstructional services	2,500	1,500	979	1,000	521
Total Expenditures	850,000	833,254	719,783	16,746	113,471
Excess (Deficiency) of Revenues over (under) Expenditures	_____				
Net Change in Fund Balances	_____				
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -

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

NESHOBA COUNTY 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 (asset)	0.223056%
District's proportionate share of the net pension liability (asset)	\$ 27,074,914
District's covered-employee payroll	13,629,873
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	199%
Plan fiduciary net position as a percentage of the total pension liability	67%

The notes to the 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. This 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.

NESHOBA COUNTY SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 2,274,354
Contributions in relation to the contractually required contribution	2,274,354
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	14,440,343
Contributions as a percentage of covered-employee payroll	15.75%

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

This 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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

NESHOBA COUNTY 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	\$ 237,805
National school lunch program	10.555	1,088,683
Total child nutrition cluster		<u>1,326,488</u>
Total passed-through Mississippi Department of Education		<u>1,326,488</u>
Total U.S. Department of Agriculture		<u>1,326,488</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	69,297
Total U.S. Department of Defense		<u>69,297</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	64,204
Total Federal Communications Commission		<u>64,204</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Impact aid	84.041	270,341
Indian education - grants to local education agencies	84.060	61,272
Total direct programs		<u>331,613</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,134,617
Career and technical education - basic grants to states	84.048	28,932
Rural education	84.358	92,288
Improving teacher quality-State Grants	84.367	180,367
Subtotal		<u>1,436,204</u>
Special education cluster:		
Special education - grants to states	84.027	719,783
Special education - preschool grants	84.173	18,678
Total special education cluster		<u>738,461</u>
Total passed-through Mississippi Department of Education		<u>2,174,665</u>
Total U.S. Department of Education		<u>2,506,278</u>
Total for All Federal Awards		<u>\$ 3,966,267</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.

NESHOBA COUNTY SCHOOL DISTRICT
Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 20,037,131	15,261,490	1,100,743	1,168,795	2,506,103
Other	<u>6,721,823</u>	<u>1,921,432</u>	<u>184,453</u>	<u>48,585</u>	<u>4,567,353</u>
Total	<u>\$ 26,758,954</u>	<u>17,182,922</u>	<u>1,285,196</u>	<u>1,217,380</u>	<u>7,073,456</u>
Total number of students *	<u>3,018</u>				
Cost per student	<u>\$ 8,866</u>	<u>5,693</u>	<u>426</u>	<u>403</u>	<u>2,344</u>

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

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

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

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

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

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

OTHER INFORMATION

NESHOBA COUNTY 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	\$ 3,547,466	\$ 3,629,785	\$ 3,482,047	\$ 3,607,509
State sources	15,126,397	14,684,481	14,762,000	14,014,658
Federal sources	416,779	322,484	1,107,144	1,314,800
Sixteenth section sources	768,032			
Total Revenues	19,858,674	18,636,750	19,351,191	18,936,967
Expenditures:				
Instruction	13,009,802	12,789,936	12,560,806	11,839,860
Support services	7,321,056	6,715,022	6,618,656	6,593,906
Noninstructional services	500	1,000	500	500
Sixteenth section	240,272			
Facilities acquisition and construction	706,010			204,647
Total Expenditures	21,277,640	19,505,958	19,179,962	18,638,913
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,418,966)</u>	<u>(869,208)</u>	<u>171,229</u>	<u>298,054</u>
Other Financing Sources (Uses):				
Capital leases issued		191,752		
Insurance recovery	7,522		31,892	12,458
Sale of transportation equipment	9,472	9,407	5,778	12,974
Operating transfers in	33,996	169,075	459,830	30,759
Operating transfers out	(723,611)	(571,441)	(412,136)	(722,145)
Other financing uses		(200)		
Total Other Financing Sources (Uses)	<u>(672,621)</u>	<u>(201,407)</u>	<u>85,364</u>	<u>(665,954)</u>
Net Change in Fund Balances	(2,091,587)	(1,070,615)	256,593	(367,900)
Fund Balances:				
Beginning of period, as previously reported	4,121,860	5,192,475	4,932,808	5,300,708
Fund Reclassification	2,828,266			
Prior period adjustments	837		3,074	
Beginning of period, as restated	<u>6,950,963</u>	<u>5,192,475</u>	<u>4,935,882</u>	<u>5,300,708</u>
End of Period	<u>\$ 4,859,376</u>	<u>\$ 4,121,860</u>	<u>\$ 5,192,475</u>	<u>\$ 4,932,808</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

NESHOBA COUNTY 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	\$ 3,944,286	\$ 4,040,997	\$ 3,866,928	\$ 4,006,498
State sources	16,008,648	15,555,082	15,651,105	14,913,646
Federal sources	4,201,179	3,850,021	4,754,840	5,474,415
Sixteenth section sources	881,323	822,558	511,268	763,530
Total Revenues	<u>25,035,436</u>	<u>24,268,658</u>	<u>24,784,141</u>	<u>25,158,089</u>
Expenditures:				
Instruction	15,406,891	14,962,575	14,865,883	14,410,021
Support services	7,995,699	7,411,939	7,333,154	7,714,095
Noninstructional services	1,653,537	1,658,698	1,652,533	1,643,635
Sixteenth section	331,953	86,802	90,922	92,751
Facilities acquisition and construction	706,010		81,832	2,204,700
Debt service:				
Principal	421,758	380,161	340,275	345,400
Interest	240,056	251,118	260,320	272,259
Other	3,050	3,050	2,950	2,950
Total Expenditures	<u>26,758,954</u>	<u>24,754,343</u>	<u>24,627,869</u>	<u>26,685,811</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,723,518)</u>	<u>(485,685)</u>	<u>156,272</u>	<u>(1,527,722)</u>
Other Financing Sources (Uses):				
Capital leases issued		191,752		
Insurance recovery	7,522		31,892	12,458
Sale of transportation equipment	9,472	9,407	5,778	12,974
Sale of other property				1,082
Operating transfers in	757,607	921,416	1,426,691	1,920,587
Payment held by QSCB escrow agent	201,300	201,904	200,691	201,300
Operating transfers out	(757,607)	(921,416)	(1,426,691)	(1,920,587)
Payment to QSCB escrow agent	(201,300)	(201,904)	(200,691)	(201,300)
Other financing uses		(275)		
Total Other Financing Sources (Uses)	<u>16,994</u>	<u>200,884</u>	<u>37,670</u>	<u>26,514</u>
Net Change in Fund Balances	<u>(1,706,524)</u>	<u>(284,801)</u>	<u>193,942</u>	<u>(1,501,208)</u>
Fund Balances:				
Beginning of period, as previously reported	9,164,598	9,457,600	9,260,695	10,765,558
Prior period adjustments	842		3,074	
Beginning of period, as restated	<u>9,165,440</u>	<u>9,457,600</u>	<u>9,263,769</u>	<u>10,765,558</u>
Increase (Decrease) in reserve for inventory	<u>9,447</u>	<u>(8,201)</u>	<u>(111)</u>	<u>(3,655)</u>
End of Period	<u>\$ 7,468,363</u>	<u>\$ 9,164,598</u>	<u>\$ 9,457,600</u>	<u>\$ 9,260,695</u>

*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. Staggers, 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
Neshoba County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Neshoba County School District's basic financial statements, and have issued our report thereon dated January 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Neshoba County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Neshoba County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Neshoba County School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. 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 2015-01).

Compliance and Other Matters

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

Neshoba County School District's Response to Findings

Neshoba County School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Neshoba County 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
Philadelphia, Mississippi
January 8, 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. Staggers, 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
 Neshoba County School District

Report on Compliance for Each Major Federal Program

We have audited the Neshoba County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Neshoba County School District's major federal programs for the year ended June 30, 2015. Neshoba County 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 the Neshoba County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Neshoba County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
January 8, 2016

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



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

Superintendent and School Board
 Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2015, which collectively comprise Neshoba County School District's basic financial statements and have issued our report thereon dated January 8, 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 had 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 disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1. Proper form should be filed for all retirees

Finding

The Mississippi Public Employees Retirement System (PERS) requires, under the re-employment provisions of Section 25-11-127, Miss Code Ann. (1972), school districts hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgment of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree.

During our testing of state legal compliance, we noted four instances where Form 4B's were not signed within five days of rehire.

Recommendation

We recommend the District implement procedures to ensure that the District follows the provisions of Section 25-11-127, Miss. Code Ann. (1972).

School District Response

The District concurs with the recommendation and no retiree will be allowed to work until a Form 4B has been completed. This will ensure that the District is in compliance with the five day requirement.

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

The Neshoba County School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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
Philadelphia, Mississippi
January 8, 2016

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NESHOBA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

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? | No |
| b. Significant deficiency(ies) identified? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|---|---------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None reported |
| 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? | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition cluster
84.027, 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? | No |

NESHOBA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II: Financial Statement Findings

Significant Deficiency Not Considered to be a Material Weakness

Finding 2015-01: Internal Controls Surrounding Payroll Expenditures and Related Liabilities Should Be Strengthened

Finding: The school district is charged with developing a control system that will provide safeguards over district assets that will ensure all transactions are properly authorized and that will ensure all transactions are properly classified and accounted for in the appropriate accounting period. Out of a sample size of 61 payroll transactions tested, the following deviations from identified controls were noted:

- We noted 1 instance where an employee was not paid according to the board approved salary scale.
- We noted 1 instance where an employee was not paid the correct rate for overtime.

Recommendation: We recommend that all personnel be paid according to the board approved salary scale. We also recommend that employees subject to overtime be paid at the correct overtime rate.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN



Neshoba County School District

401 East Beacon Street, Suite 102 | Philadelphia, MS 39350 | Phone: 601-656-3752 | Fax: 601-656-3789
www.neshobacentral.com

Joe Killens, Superintendent of Education

Board of Education:

Davis Fulton, President, District 2
Johnny Crenshaw, Vice-President, District 4
Shan Winstead, Secretary, District 3
Michelle Phillips, District 1
Jill Byars, District 5

Central Office Staff:

Crystal Chesney, CPA, Chief Financial Officer
Rita Daugherty, Payroll/16th Section
Sherry Smith, Accounts Payable/Purchasing/Fixed Assets
Reina Coats, Administrative Assistant

As required by Section .315(c) of OMB Circular A-133, the Neshoba County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2015:

Finding

Corrective Action Plan Details

2015-01

a. Name of Contact Person Responsible for Corrective Action:

Name: Crystal Chesney, CPA
Title: Chief Financial Officer
Telephone: 601-656-3752

b. Corrective Action Planned:

- The Neshoba County School District will require a second employee in the business office (other than the Payroll Officer) to compare the payroll records to the board approved salary scale at the beginning of each fiscal year to ensure all employees are paid according to the board approved salary scale.
- The Neshoba County School District will require personnel responsible for calculating overtime to double check the overtime rate calculations for possible human error each pay period to ensure that all employees subject to overtime are paid the correct overtime rate.

c. Anticipated Completion Date:

The Neshoba County School District will begin implementing this Corrective Action Plan immediately. Since we are halfway through FY2016, we expect this corrective plan to be completely implemented by no later than FY2017.

Sincerely,

Joe Killens
Superintendent of Education