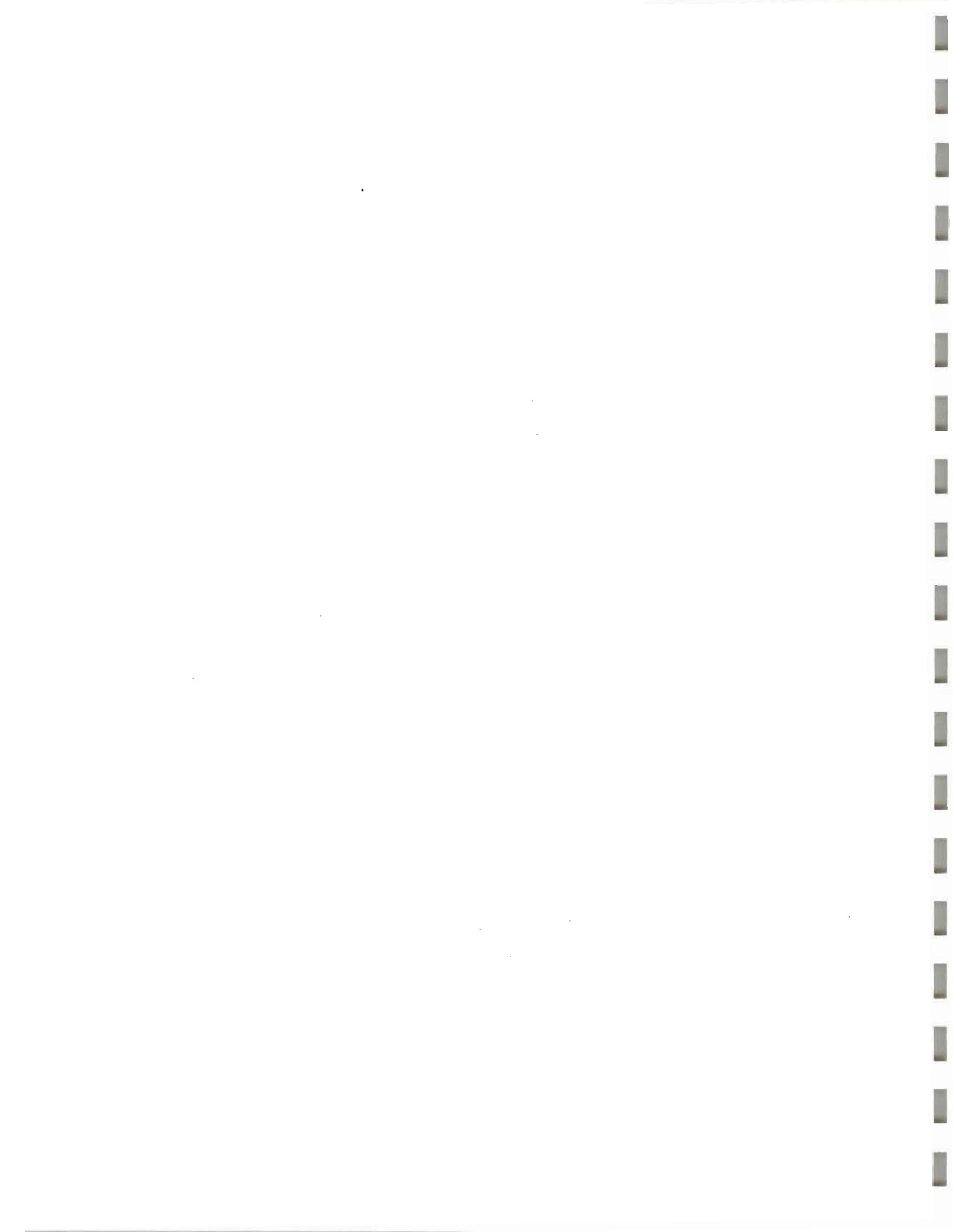




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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013



LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA
INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Louisville Municipal School District School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7-14 and 47-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

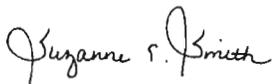
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisville Municipal School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2014, on our consideration of the Louisville Municipal School District School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Louisville Municipal School District School District's internal control over financial reporting and compliance.



Suzanne E. Smith, CPA
Meridian, Mississippi

June 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net position for 2013 decreased \$741,707, which represents a 5% decrease from fiscal year 2012. Total net position for 2012 increased \$640,311, including a prior period adjustment of \$22,264, which represents a 4% increase from fiscal year 2011.
- General revenues amounted to \$18,539,441 and \$18,251,124, or 75.2% and 73.4% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,124,333, or 24.8% of total revenues for 2013, and \$6,599,180, or 26.6% of total revenues for 2012.
- The District had \$25,405,481 and \$24,232,257 in expenses for fiscal years 2013 and 2012; only \$6,124,333 for 2013 and \$6,599,180 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$18,539,441 and beginning net position for 2013 and general revenues of \$18,251,124 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,782,992 in revenues and \$19,015,095 in expenditures for 2013, and \$18,239,049 in revenues and \$18,002,958 in expenditures in 2012. The General Fund's fund balance decreased by \$894,650 from 2012 to 2013, and decreased by \$293,838 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, decreased by \$175,825 for 2013 and increased by \$300,712 for 2012. The decrease for 2013 was due primarily due to the depreciation expense of \$619,435, which was offset by purchases of capital assets in the amount of \$451,339.
- Long-term debt, including the liability for compensated absences, decreased by \$320,425 for 2013 and decreased by \$291,546 for 2012. This decrease for 2013 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$15,425 for 2013 and increased by \$11,075 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$15,382,606 as of June 30, 2013.

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

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

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

Table 1
Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 9,493,338	\$ 10,193,435	-6.87 %
Restricted assets	230,568	227,666	1.27 %
Capital assets, net	9,456,634	9,632,459	-1.83 %
Total assets	<u>19,180,540</u>	<u>20,053,560</u>	-4.35 %
Current liabilities	1,462,444	1,578,332	-7.34 %
Long-term debt outstanding	2,335,490	2,350,915	-0.66 %
Total liabilities	<u>3,797,934</u>	<u>3,929,247</u>	-3.34 %
Net position:			
Net investment in capital assets	7,315,634	7,186,459	1.80 %
Restricted	1,504,903	4,945,035	-69.57 %
Unrestricted	6,562,069	3,992,819	64.35 %
Total net position	<u>\$ 15,382,606</u>	<u>\$ 16,124,313</u>	-4.60 %

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

- Decrease in net capital assets in the amount of \$175,825.
- The principal retirement of \$305,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$24,663,774 and \$24,850,304, respectively. The total cost of all programs and services was \$25,405,481 for 2013 and \$24,232,257 for 2012.

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

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

Table 2
Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 944,135	\$ 1,101,002	(14.25) %
Operating grants and contributions	5,034,130	5,498,178	(8.44) %
Capital grants and contributions	146,068	-	N/A
General revenues:			
Property taxes	5,683,232	5,702,991	(0.35) %
Grants and contributions not restricted	12,586,198	11,937,980	5.43 %
Investment earnings	31,167	19,284	61.62 %
Sixteenth section sources	217,712	590,869	(63.15) %
Other	21,132	-	N/A
Total revenues	24,663,774	24,850,304	(0.75) %
Expenses:			
Instruction	14,608,582	13,801,744	5.85 %
Support services	8,618,546	8,433,047	2.20 %
Non-instructional	1,974,481	1,784,735	10.63 %
Sixteenth section	123,498	121,073	2.00 %
Interest on long-term liabilities	80,374	91,658	(12.31) %
Total expenses	25,405,481	24,232,257	4.84 %
Increase (Decrease) in net position	(741,707)	618,047	(220.01) %
Net Position, July 1	16,124,313	15,484,002	4.14 %
Prior Period Adjustment	-	22,264	(100.00) %
Net Position, July 1, as restated	16,124,313	15,506,266	3.99 %
Net Position, June 30	\$ 15,382,606	\$ 16,124,313	(4.60) %

Governmental activities

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

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 14,608,582	\$ 13,801,744	5.85 %
Support services	8,618,546	8,433,047	2.20 %
Non-instructional	1,974,481	1,784,735	10.63 %
Sixteenth section	123,498	121,073	2.00 %
Interest on long-term liabilities	80,374	91,658	(12.31) %
Total expenses	\$ 25,405,481	\$ 24,232,257	4.84 %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (11,898,897)	\$ (10,765,413)	10.53 %
Support services	(7,416,507)	(6,938,761)	6.89 %
Non-instructional	133,478	193,617	(31.06) %
Sixteenth section	(104,465)	(30,862)	238.49 %
Interest on long-term liabilities	5,243	(91,658)	(105.72) %
Total net (expense) revenue	\$ (19,281,148)	\$ (17,633,077)	9.35 %

- Net cost of governmental activities [(\$19,281,148) for 2013 and (\$17,633,077) for 2012] was financed by general revenue, which is primarily made up of property taxes (\$5,683,232 for 2013 and \$5,702,991 for 2012) and state and federal revenues (\$12,586,198 for 2013 and \$11,937,980 for 2012). In addition, there was \$217,712 and \$590,869 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$31,167 for 2013 and \$19,284 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,334,274, a decrease of \$896,679, which includes an increase in inventory of \$14,093. \$6,346,928, or 76% 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 \$1,987,346 or 24% 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.

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

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$894,650. The fund balance of Other Governmental Funds showed an increase in the amount of \$86,060, which includes an increase in reserve for inventory of \$14,093. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
16th Section Interest Fund	\$ (88,089)

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, 2013, the District's total capital assets were \$18,871,147 including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$426,791 from 2012. Total accumulated depreciation as of June 30, 2013, was \$9,414,513, and total depreciation expense for the year was \$619,435, resulting in total net capital assets of \$9,456,634.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 279,607	\$ 279,607	0.00 %
Buildings	4,226,628	4,366,168	(3.20) %
Building improvements	1,935,840	2,028,465	(4.57) %
Improvements other than buildings	1,117,878	1,171,323	(4.56) %
Mobile equipment	1,462,474	1,447,683	1.02 %
Furniture and equipment	434,207	339,213	28.00 %
Total	<u>\$ 9,456,634</u>	<u>\$ 9,632,459</u>	(1.83) %

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

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

Debt Administration. At June 30, 2013, the District had \$2,335,490 in outstanding long-term debt, of which \$318,000 is due within one year. The liability for compensated absences decreased \$15,425 from the prior year. The district made principal payments on long-term debt in the amount of \$305,000.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Change</u>
Three mill notes payable	2,141,000	2,446,000	(12.47) %
Compensated absences payable	194,490	209,915	(7.35) %
Total	\$ 2,335,490	\$ 2,655,915	(12.06) %

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

CURRENT ISSUES

Louisville Municipal School District is financially stable. The district is proud of its community support of the public schools. The district has committed itself to financial excellence. The district plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Louisville Municipal School District School District, P.O. Box 909, 112 South Columbus Avenue, Louisville, MS 39339.

FINANCIAL STATEMENTS

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Louisville Municipal School District

Statement of Net Position
June 30, 2013

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,675,371
Due from other governments	736,729
Other receivables, net	11,121
Inventories	70,117
Restricted assets	230,568
Capital assets, net of accumulated depreciation	9,456,634
Total Assets	19,180,540
Liabilities	
Accounts payable and accrued liabilities	1,389,632
Interest payable on long-term liabilities	72,812
Long-term liabilities, due within one year:	
Capital related liabilities	318,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,823,000
Non-capital related liabilities	194,490
Total Liabilities	3,797,934
Net Position	
Net investment in capital assets	7,315,634
Restricted for:	
Expendable:	
School-based activities	645,608
Debt service	229,399
Forestry improvements	330,393
Unemployment benefits	68,935
Non-expendable:	
Sixteenth section	230,568
Unrestricted	6,562,069
Total Net Position	\$ 15,382,606

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

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Louisville Municipal School District

Statement of Activities

For the Year Ended June 30, 2013

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 14,608,582	592,986	2,029,569	87,130	(11,898,897)
Support services	8,618,546		1,202,039		(7,416,507)
Non-instructional	1,974,481	332,116	1,716,905	58,938	133,478
Sixteenth section	123,498	19,033			(104,465)
Interest on long-term liabilities	80,374		85,617		5,243
Total Governmental Activities	25,405,481	944,135	5,034,130	146,068	(19,281,148)

General Revenues:	
Taxes:	
General purpose levies	5,371,340
Debt purpose levies	311,892
Unrestricted grants and contributions:	
State	12,369,720
Federal	216,478
Unrestricted investment earnings	31,167
Sixteenth section sources	217,712
Other	21,132
Total General Revenues	18,539,441
Change in Net Position	(741,707)
Net Position - Beginning	16,124,313
Net Position - Ending	\$ 15,382,606

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

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Louisville Municipal School District
Governmental Funds

Exhibit C

Balance Sheet
June 30, 2013

	Major Funds			Total Governmental Funds
	General Fund	16th Section Interest Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents	\$ 3,866,550	3,450,670	1,588,719	8,905,939
Due from other governments	272,631		464,098	736,729
Other receivables, net		11,121		11,121
Due from other funds	363,171		26,733	389,904
Inventories			70,117	70,117
Total assets	4,502,352	3,461,791	2,149,667	10,113,810
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	1,167,535	13,316	208,781	1,389,632
Due to other funds	26,733		363,171	389,904
Total Liabilities	1,194,268	13,316	571,952	1,779,536
Fund Balances:				
Nonspendable:				
Inventory			70,117	70,117
Permanent fund principal			230,568	230,568
Restricted:				
Debt service			302,211	302,211
Forestry improvement purposes			330,393	330,393
Grant activities			575,491	575,491
Unemployment benefits			68,935	68,935
Assigned:				
Capital improvements	274,328			274,328
Student activities	135,303			135,303
Unassigned	2,898,453	3,448,475		6,346,928
Total Fund Balances	3,308,084	3,448,475	1,577,715	8,334,274
Total Liabilities and Fund Balances	\$ 4,502,352	3,461,791	2,149,667	10,113,810

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

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Louisville Municipal School District
Governmental Funds

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

Exhibit C-1

Total fund balances for governmental funds \$ 8,334,274

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	\$ 279,607
Buildings	8,995,881
Building improvements	2,315,621
Improvements other than buildings	1,336,134
Mobile equipment	4,671,029
Furniture and equipment	1,272,875
Accumulated depreciation	<u>(9,414,513)</u>
	9,456,634

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

Three mill notes payable	(2,141,000)
Compensated absences	(194,490)
Accrued interest payable	<u>(72,812)</u>
	(2,408,302)

Net Position of governmental activities

\$ 15,382,606

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

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Louisville Municipal School District
Governmental Funds

Exhibit D

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

	Major Funds			Total Governmental Funds
	General Fund	16th Section Interest Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 5,993,871		652,338	6,646,209
State sources	12,506,707		524,224	13,030,931
Federal sources	282,414		4,453,050	4,735,464
Sixteenth section sources		228,081	23,089	251,170
Total Revenues	18,782,992	228,081	5,652,701	24,663,774
Expenditures:				
Instruction	11,724,176		2,704,662	14,428,838
Support services	7,263,299		1,389,211	8,652,510
Noninstructional services	400		1,973,559	1,973,959
Sixteenth section	27,220	66,170	30,103	123,493
Debt service:				
Principal			305,000	305,000
Interest			90,746	90,746
Total Expenditures	19,015,095	66,170	6,493,281	25,574,546
Excess (Deficiency) of Revenues over (under) Expenditures	(232,103)	161,911	(840,580)	(910,772)
Other Financing Sources (Uses):				
Operating transfers in	355,241		1,017,788	1,373,029
Operating transfers out	(1,017,788)	(250,000)	(105,241)	(1,373,029)
Total Other Financing Sources (Uses)	(662,547)	(250,000)	912,547	0
Net Change in Fund Balances	(894,650)	(88,089)	71,967	(910,772)
Fund Balances:				
July 1, 2012	4,202,734	3,536,564	1,491,655	9,230,953
Increase (Decrease) in reserve for inventory			14,093	14,093
June 30, 2013	\$ 3,308,084	3,448,475	1,577,715	8,334,274

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

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**Louisville Municipal School District
Governmental Funds**

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ (910,772)

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	\$ 451,339	
Depreciation expense	(619,435)	(168,096)

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.

(7,729)

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

Payments of debt principal		305,000
Accrued interest payable		10,372

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	15,425	
Change in inventory reserve	14,093	29,518

Change in Net Position of governmental activities

\$ (741,707)

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

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Louisville Municipal School District

Fiduciary Funds

Statement of Fiduciary Net Position
June 30, 2013

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 45,423	\$ 93,619
Investments	20,376	
Accrued interest receivable		
Due from other funds		
Due from other governments		
Total Assets	65,799	93,619
Liabilities		
Accounts payable and accrued liabilities	300	1,491
Due to other governments		
Due to other funds		
Due to student clubs		92,128
Total Liabilities	300	\$ 93,619
Net Position		
Reserved for endowments	65,499	
Total Net Position	\$ 65,499	

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

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Louisville Municipal School District

Fiduciary Funds

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013**

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ 225
Contributions and donations from private sources	1,150
Total Additions	<u>1,375</u>
Deductions	
Scholarships awarded	<u>1,660</u>
Total Deductions	<u>1,660</u>
Change in Net Position	<u>(285)</u>
Net Position	
July 1, 2012	<u>65,784</u>
June 30, 2013	<u>\$ 65,499</u>

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

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets 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.

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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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.

16th Section Interest Fund – This is a special revenue fund that accounts for the expendable resources derived from the district's sixteenth section lands.

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 district's fiduciary funds include the following:

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

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

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

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

Additionally, the School District reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

Permanent Funds - Permanent Funds are used to account for and report resources that are 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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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

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

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

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

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

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

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 maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the School District attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

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

7. Compensated Absences

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

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

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

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue costs, 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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

9. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the school board, the District's highest level of decision-making authority. There were no fund balance commitments at June 30, 2013.

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 business manager and superintendent pursuant to authorization established by board policy.

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

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

Note 2 – Cash and Cash Equivalents and Investments

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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 \$8,905,939, and \$139,042, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the District. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the District. As of June 30, 2013, none of the District's bank balance of \$9,876,065 was exposed to custodial credit risk.

Investments

As of June 30, 2013, the district held the following investments in private-purpose trust funds.

<u>Investment Type</u>	<u>Maturities</u> <u>(in years)</u>	<u>Fair Value</u>
Certificates of Deposit	Less than 1	\$ 20,376
Total		\$ <u>20,376</u>

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

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. As of June 30, 2013, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issue 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, 2013, the district had the following investments:

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Certificates of Deposit - Regions Bank	\$ 5,176.00	25%
Certificates of Deposit - Citizens' Bank	\$ 15,200.00	75%

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 363,171
Other governmental funds	General Fund	26,733
Total		<u>\$ 389,904</u>

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

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 1,017,788
16th Section Interest Fund	General Fund	250,000
Other governmental funds	General Fund	105,241
		<u>\$ 1,373,029</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$230,568, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 279,607			279,607
Total non-depreciable capital assets	279,607	-	-	279,607
<u>Depreciable capital assets:</u>				
Buildings	8,995,881			8,995,881
Building improvements	2,315,621			2,315,621
Improvements other than buildings	1,336,134			1,336,134
Mobile equipment	4,434,073	236,956		4,671,029
Furniture and equipment	1,083,040	214,383	24,548	1,272,875
Total depreciable capital assets	18,164,749	451,339	24,548	18,591,540
<u>Less accumulated depreciation for:</u>				
Buildings	4,629,713	139,540		4,769,253
Building improvements	287,156	92,625		379,781
Improvements other than buildings	164,811	53,445		218,256
Mobile equipment	2,986,390	222,165		3,208,555
Furniture and equipment	743,827	111,660	16,819	838,668
Total accumulated depreciation	8,811,897	619,435	16,819	9,414,513
Total depreciable capital assets, net	9,352,852	(168,096)	7,729	9,177,027
Governmental activities capital assets, net	\$ 9,632,459	(168,096)	7,729	9,456,634

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 297,762
Support services	246,673
Non-instructional	75,000
Total depreciation expense - Governmental activities	<u>\$ 619,435</u>

Note 6 – Long-term Liabilities

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. Three mill notes payable	\$ 2,446,000		305,000	2,141,000	318,000
B. Compensated absences payable	209,915		15,425	194,490	-
Total	\$ 2,655,915	-	320,425	2,335,490	318,000

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2008	3.71%	1-Aug-08	1-Aug-22	\$ 3,300,000	\$ 2,141,000
Total				\$ 3,300,000	\$ 2,141,000

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

Three mill notes payable issue of August 1, 2008:

Year Ending June 30	Principal	Interest	Total
2014	\$ 318,000	79,431	397,431
2015	330,000	67,633	397,633
2016	288,000	55,390	343,390
2017	190,000	44,706	234,706
2018	190,000	37,657	227,657
2019-2023	825,000	92,565	917,565
Total	\$ 2,141,000	377,382	2,518,382

The school district has pledged future state educational enhancement revenues for buildings and buses to help repay the \$3,500,000 three mill notes payable issued August 1, 2008. The bonds were issued to make improvements to the district's buildings. The debt will be paid in full and the pledge satisfied on August 1, 2022. The annual pledge is approximately \$85,617, which is approximately 100% of such state revenues. Total state educational enhancement revenues for buildings and buses was \$85,617 for the year ended June 30, 2013, while principal and interest requirements for the debt totaled \$395,747.

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

B. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

Plan Description. The School District contributes to the Public Employees' Retirement System of Mississippi (PERS), a

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were \$1,945,962, \$1,669,791, and \$1,763,465, respectively, which equaled the required contributions for each year.

Note 8 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2014	\$ 85,145
2015	85,085
2016	76,446
2017	58,507
2018	55,199
2019 – 2023	237,172
2024 – 2028	185,222
2029 – 2033	170,462
Thereafter	87,384
Total	<u>\$ 1,040,622</u>

Note 9 – 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 district.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2013

Note 10 – 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 years.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the 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 11 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Louisville Municipal School District evaluated the activity of the district through June 12, 2014, and determined that there was no subsequent event that has occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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Louisville Municipal School District
Required Supplementary Information

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 5,782,801	5,993,871	5,993,871	211,070	0
State sources	12,508,704	12,506,707	12,506,707	(1,997)	0
Federal sources	310,010	282,414	282,414	(27,596)	0
Total Revenues	18,601,515	18,782,992	18,782,992	181,477	0
Expenditures:					
Instruction	11,563,437	11,571,611	11,724,176	(8,174)	(152,565)
Support services	7,896,878	7,263,299	7,263,299	633,579	0
Noninstructional services	2,000	400	400	1,600	0
Sixteenth section	29,964	27,220	27,220	2,744	0
Total Expenditures	19,492,279	18,862,530	19,015,095	629,749	(152,565)
Excess (Deficiency) of Revenues over (under) Expenditures	(890,764)	(79,538)	(232,103)	811,226	(152,565)
Other Financing Sources (Uses):					
Operating transfers in	3,235,078	2,510,192	355,241	(724,886)	(2,154,951)
Operating transfers out	(3,391,935)	(3,172,739)	(1,017,788)	219,196	2,154,951
Total Other Financing Sources (Uses)	(156,857)	(662,547)	(662,547)	(505,690)	0
Net Change in Fund Balances	(1,047,621)	(742,085)	(894,650)	305,536	(152,565)
Fund Balances:					
July 1, 2012	3,648,960	4,202,734	4,202,734	553,774	0
June 30, 2013	\$ 2,601,339	3,460,649	3,308,084	859,310	(152,565)

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

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Louisville Municipal School District
Required Supplementary Information

Budgetary Comparison Schedule
16th Section Interest Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 303,300	228,081	228,081	(75,219)	0
Total Revenues	303,300	228,081	228,081	(75,219)	0
Expenditures:					
Sixteenth section	100,400	66,170	66,170	34,230	0
Total Expenditures	100,400	66,170	66,170	34,230	0
Excess (Deficiency) of Revenues over (under) Expenditures	202,900	161,911	161,911	(40,989)	0
Other Financing Sources (Uses):					
Operating transfers out	(800,000)	(250,000)	(250,000)	550,000	0
Total Other Financing Sources (Uses)	(800,000)	(250,000)	(250,000)	550,000	0
Net Change in Fund Balances	(597,100)	(88,089)	(88,089)	509,011	0
Fund Balances:					
July 1, 2012	3,800,000	3,536,564	3,536,564	(263,436)	0
June 30, 2013	\$ 3,202,900	3,448,475	3,448,475	245,575	0

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

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Notes to the Required Supplemental Information
For the Year Ended June 30, 2013

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

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SUPPLEMENTARY INFORMATION

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Louisville Municipal School District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 594,358
National school lunch program	10.555	1,399,147
Summer food service program for children	10.559	56,979
Total child nutrition cluster		<u>2,050,484</u>
Total passed-through Mississippi Department of Education		<u>2,050,484</u>
Passed-through Winston County:		
National forest-dependent rural communities	10.670	56,521
Total U.S. Department of Agriculture		<u>2,107,005</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	65,937
Total U.S. Department of Defense		<u>65,937</u>
<u>U. S. Department of Interior</u>		
Direct Program:		
Payments in lieu of taxes	15.226	79,974
Total U. S. Department of Interior		<u>79,974</u>
<u>Appalachian Regional Commission</u>		
Passed-through Mississippi Department of Education:		
Appalachian research, technical assistance, and demonstration projects	23.011	76,500
Total Appalachian Regional Commission		<u>76,500</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	57,002
Total Federal Communications Commission		<u>57,002</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Impact Aid - facilities maintenance	84.040	22,910
Career and technical education - basic grants to states	84.048	46,755
Twenty-first century community learning centers	84.287	257,221
Rural education	84.358	94,294
Improving teacher quality-State Grants	84.367	254,120
Subtotal		<u>675,300</u>
Title I Part A cluster:		
Title I grants to local educational agencies	84.010	1,064,531
Total Title I Part A cluster		<u>1,064,531</u>
Special education cluster:		
Special education - grants to states	84.027	853,867
Special education - preschool grants	84.173	23,704
Total special education cluster		<u>877,571</u>
Total passed-through Mississippi Department of Education		<u>2,617,402</u>
Total U.S. Department of Education		<u>2,617,402</u>
Total for All Federal Awards		<u>\$ 5,003,820</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.

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**Louisville Municipal School District
Supplementary Information**

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

Expenditures	Total	Instruction and Other Student Expenditures			
		Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 18,975,835	14,129,808	731,027	1,227,578	2,887,422
Other	6,598,711	2,522,470	281,986	142,269	3,651,986
Total	\$ 25,574,546	16,652,278	1,013,013	1,369,847	6,539,408
Total number of students *	2,822				
Cost per student	\$ 9,062	5,901	359	485	2,317

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

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OTHER INFORMATION

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Louisville Municipal School District

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 5,993,871	6,080,840	5,762,616	5,548,978
State sources	12,506,707	11,808,133	11,340,768	10,681,195
Federal sources	282,414	350,076	193,532	321,273
Total Revenues	18,782,992	18,239,049	17,296,916	16,551,446
Expenditures:				
Instruction	11,724,176	10,615,882	9,510,324	10,071,209
Support services	7,263,299	6,842,407	6,921,033	6,039,199
Noninstructional services	400	1,917	550	10,906
Sixteenth section	27,220	25,692	23,093	23,377
Facilities acquisition and construction		509,439		
Debt service:				
Principal		7,621	18,855	22,463
Total Expenditures	19,015,095	18,002,958	16,473,855	16,167,154
Excess (Deficiency) of Revenues over (under) Expenditures	(232,103)	236,091	823,061	384,292
Other Financing Sources (Uses):				
Insurance recovery		25,914		
Sale of transportation equipment			9,980	
Operating transfers in	355,241	410,849	573,976	550,090
Operating transfers out	(1,017,788)	(966,692)	(922,344)	(1,033,822)
Total Other Financing Sources (Uses)	(662,547)	(529,929)	(338,388)	(483,732)
Net Change in Fund Balances	(894,650)	(293,838)	484,673	(99,440)
Fund Balances:				
Beginning of period	4,202,734	4,496,572	4,011,899	4,111,339
End of Period	\$ 3,308,084	4,202,734	4,496,572	4,011,899

*SOURCE - PRIOR YEAR AUDIT REPORTS

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Louisville Municipal School District

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 6,646,209	6,724,537	6,399,137	6,246,226
State sources	13,030,931	12,365,294	11,931,536	11,881,972
Federal sources	4,735,464	5,070,863	6,780,259	5,605,920
Sixteenth section sources	251,170	689,610	357,168	753,727
Total Revenues	24,663,774	24,850,304	25,468,100	24,487,845
Expenditures:				
Instruction	14,428,838	13,519,491	13,945,866	13,922,207
Support services	8,652,510	8,425,725	8,815,797	7,764,763
Noninstructional services	1,973,959	1,865,612	1,780,763	1,643,377
Sixteenth section	123,493	120,862	173,680	131,655
Facilities acquisition and construction		509,439		2,146,365
Debt service:				
Principal	305,000	302,621	303,855	296,463
Interest	90,746	101,691	112,265	122,430
Advance refunding escrow				
Other				
Total Expenditures	25,574,546	24,845,441	25,132,226	26,027,260
Excess (Deficiency) of Revenues over (under) Expenditures	(910,772)	4,863	335,874	(1,539,415)
Other Financing Sources (Uses):				
Insurance recovery		25,914		
Sale of transportation equipment			9,980	
Operating transfers in	1,373,029	1,377,541	1,496,320	1,583,912
Operating transfers out	(1,373,029)	(1,377,541)	(1,496,320)	(1,583,912)
Total Other Financing Sources (Uses)	0	25,914	9,980	0
Net Change in Fund Balances	(910,772)	30,777	345,854	(1,539,415)
Fund Balances:				
Beginning of period, as previously reported	9,230,953	9,192,933	8,835,915	10,390,800
Prior period adjustments		(1,922)		
Beginning of period, as restated	9,230,953	9,191,011	8,835,915	10,390,800
Increase (Decrease) in reserve for inventory	14,093	9,165	11,164	(15,470)
End of Period	\$ 8,334,274	9,230,953	9,192,933	8,835,915

*SOURCE - PRIOR YEAR AUDIT REPORTS

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

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 School Board
Louisville Municipal School District

Internal Control Over Financial Reporting

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Louisville Municipal School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Louisville Municipal School District's basic financial statements, and have issued our report thereon dated June 12, 2014.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies. (**Finding 2013-01 and Finding 2013-02**).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisville Municipal School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

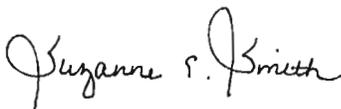
laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Responses to Findings

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



Suzanne E. Smith, CPA
Meridian, MS

June 12, 2014

Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the School Board
Louisville Municipal School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

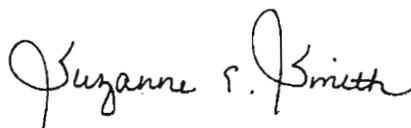
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of Findings and Questioned Costs as **Finding 2013-03**, that we consider to be a significant deficiency.

School District's Response to Finding

Louisville Municipal School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Louisville Municipal School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Suzanne E. Smith, CPA
Meridian, MS

June 12, 2014

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

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Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

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

Superintendent and School Board
Louisville Municipal School District School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District School District as of and for the year ended June 30, 2013, which collectively comprise Louisville Municipal School District School District's basic financial statements and have issued our report thereon dated June 12, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

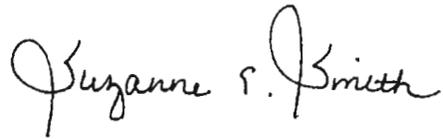
Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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 non-compliance related to incorrect or inappropriate functional level expenditure coding.

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

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

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

A handwritten signature in cursive script that reads "Suzanne E. Smith". The signature is written in black ink and is positioned above the printed name.

Suzanne E. Smith, CPA
Meridian, Mississippi

June 12, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.010	Title I grants to local educational agencies

Dollar threshold used to distinguish between type A and type B programs: \$300,000

- | | |
|--|-----|
| 9. Auditee qualified as low-risk auditee? (yes/no) | Yes |
|--|-----|

Section II: Financial Statement Findings

Significant Deficiencies Not Considered to be Material Weaknesses

Finding 2013-01. Controls surrounding student activity fund expenditures should be strengthened:

School district management is responsible for establishing and maintaining a system of internal accounting control over student activity fund expenditures.

During our testing of student activity fund expenditures, we noted the following deficiencies:

- We noted 44 instances where receiving documentation to support the evidence of goods and/or services being received prior to claim payment was missing from claims paid and included in monthly transmittal forms.
- We noted 19 instances where invoice, purchase order, or requisition was not included in the monthly transmittal to support the expenditures made from student activity funds. These instances centered around two schools: Eiland Middle School and Noxapater Attendance Center.

Recommendation:

Proper receiving documentation and documents supporting expenditures should be available for independent review of student activity fund expenditures included on monthly claim transmittals. Without a proper independent review of such expenditures, unallowable or unsubstantiated claims could be paid.

Finding 2013-02. (Repeat Finding) Controls surrounding payroll expenditures should be strengthened:

School district management is responsible for establishing and maintaining a system of internal accounting control over payroll expenditures.

During our testing of payroll expenditures, we noted the following deficiencies:

- Board approved pay schedules for the following groups of employees did not exist for the 2012-2013 year: bus drivers, bus driver substitutes, maintenance workers, and security officers.
- The salaries of two employees were not included in the official board minutes. One employee's salary and contract amount was higher than the board approved amount.
- Time cards or other supporting documentation was not available for bus drivers, who are considered non-exempt employees for purposes of applicability of the requirements of the Fair Labor Standards Act.

Recommendation:

The existence of board approved salary/wage schedules would greatly increase control over payments for personnel costs. The school board should provide specific approval for all employees, salary/wage schedules, and any individual salaries of employees not paid by schedule. Time cards or other supporting documentation for bus drivers will ensure compliance with the requirements of the Fair Labor Standards Act with respect to this category of employees.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiency Not Considered to be a Material Weakness

Finding 2013-03. (Repeat Finding) Program Income - Internal controls surrounding daily food sales should be strengthened:

Child Nutrition Cluster (10.553/10.555)

Pass-through entity number: none assigned

Award Year: 2012-2013

Federal agency: United States Department of Education

Pass-through entity: Mississippi State Department of Education

Criteria: Management is responsible for complying with the requirements of the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual, which recommends that two separate individuals be involved in cashiering, cash collection, daily reconciliations and deposits. Management is responsible for ensuring that all receipts are correctly recorded and deposited in order to safeguard the program income assets of the federal award program.

Condition: During detailed testing of program income receipts, we reviewed daily cash sales sheets for all locations for the month of September 2012 and January 2013. We noted twelve (12) instances where only one signature was evident on the cash register daily cash sales sheets. Two signatures, the signatures of both site manager and cashier, would have provided tighter controls.

Questioned costs: none

Cause: The likely cause is failure to adhere to the Child Nutrition Programs Policy and Procedures Manual.

Effect: The weakness in controls surrounding collection of daily sales receipts could result in misappropriation of program income assets.

Recommendation:

We recommend that the district follow the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual by requiring more than one individual be involved in cash collection, daily reconciliation and deposit functions of daily food sales.

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AUDITEE'S CORRECTIVE ACTION PLAN

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Louisville Municipal School District

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

Auditee's Corrective Action Plan
For the Year Ended June 30, 2013

Finding 2013-01: Controls surrounding student activity funds should be strengthened.

Direct Response:

- A. What corrective action will be taken? A memo was submitted and a meeting will be held with the secretaries/bookkeepers of the schools to stress the importance of this documentation being submitted to the Central Office.
 - B. Who is responsible? Tracy Luke, Business Manager and Ken McMullan, Superintendent
 - C. When will the plan be implemented? As soon as possible.
-

Finding 2013-02: Controls surrounding payroll expenditures should be strengthened.

District Response:

- A. What corrective action will be taken?
Action has already been taken to correct the absence of pay schedules for bus drivers, bus driver substitutes, maintenance workers, and security offices in the FY 2014 and the FY 2015 school years.
The salaries of the two employees has also been corrected in the hiring back process of the FY 2015 school year.
We are in the process of correcting the timekeeping issue with our transportation department. The department has a time clock but it has not worked for some time, we have orders in to get the time clock fixed.
 - B. Who is responsible? James Robert Webb, Transportation Director, Ken McMullan, Superintendent and Tracy Luke, Business Manager
 - C. When will the plan be implemented? The first two findings have been corrected and the third is a work in progress.
-

Finding 2013-03: Program Income – Internal controls surrounding daily food sales should be strengthened.

District Response:

- A. What corrective action will be taken? The district will follow the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual for requiring more than one individual be involved in the cash collection, daily reconciliation and deposit of daily food sales.
- B. Who is responsible? Sheila Reed, School Food Service Director, Ken McMullan, Superintendent and Tracy Luke, Business Manager
- C. When will the plan be implemented? As soon as possible.

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FOLLOW UP ON PRIOR YEAR FINDINGS

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Louisville Municipal School District

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

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding 2011-01 Controls over payroll expenditures should be strengthened.

Current Status: Current Year Finding

Finding 2011-03 Timekeeping records for cafeteria personnel should be maintained to document time and effort requirements.

Current Status: Corrected

Finding 2012-01 Controls over payroll expenditures should be strengthened.

Current Status: Current Year Finding

Finding 2012-02 Controls over approval of professional services should be strengthened.

Current Status: Corrected

Finding 2012-03 Controls over activity fund receipts should be strengthened.

Current Status: Corrected

Finding 2012-04 Child Nutrition Cluster: Internal controls over child nutrition payroll should be strengthened.

Current Status: Corrected

Finding 2012-05 Child Nutrition Cluster: Program Income – Inadequate controls surrounding collection of receipts.

Current Status: Current Year Finding

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