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HOLLY SPRINGS SCHOOL DISTRICT

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

M. M. WINKLER & ASSOCIATES, PLLC
Certified Public Accountants
Tupelo, Mississippi

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HOLLY SPRINGS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Holly Springs 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 Holly Springs School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Holly Springs 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.

INDEPENDENT AUDITOR'S REPORT

- Continued -

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 Holly Springs School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 13-20, 51-52, 53 and 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

- Continued -

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2016, on our consideration of the Holly Springs 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 Holly Springs School District's internal control over financial reporting and compliance.

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
February 1, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following discussion and analysis of Holly Springs School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$14,872,852 including a prior period adjustment of (\$15,739,960), which represents a 174.05% decrease from fiscal year 2014. Total net position for 2014 increased \$108,431 including a prior period adjustment of (\$21,336), which represents a 1.28% increase from fiscal year 2013.
- General revenues amounted to \$11,615,170 and \$11,443,977, or 77.32% and 76.74% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,407,014, or 22.68% of total revenues for 2015, and \$3,469,181, or 23.26% of total revenues for 2014.
- The District had \$14,155,076 and \$14,783,391 in expenses for fiscal years 2015 and 2014; only \$3,407,014 for 2015 and \$3,469,181 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,615,170 for 2015 and \$11,443,977 for 2014 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,522,814 in revenues and \$9,770,567 in expenditures for 2015, and \$10,286,020 in revenues and \$10,147,971 in expenditures in 2014. The General Fund's fund balance increased by \$290,845 from 2014 to 2015, and decreased by \$59,505, including a prior period adjustment of \$(10,975), from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$2,424,249 for 2015 and increased by \$316,913 for 2014. The increase for 2015 was due primarily to the construction in progress addition of \$2,554,241.
- Long-term debt decreased by \$697,109 for 2015 and increased by \$9,460,018 for 2014. This decrease for 2015 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$4,675 for 2015 and decreased by \$634 for 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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.

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

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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 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.

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.

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

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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.

This report also presents a schedule of the District's proportionate share of the net pension liability of the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. This schedule is presented to show trending data over the most recent ten fiscal year periods as required by the Governmental Accounting Standards Board.

This report also presents a schedule of the District contributions to PERS over the most recent ten fiscal year period 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. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,327,883 as of June 30, 2015.

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

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

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

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

**Table 1
Condensed Statement of Net Position**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Current assets	\$ 3,714,558	\$ 4,023,905	-7.69 %
Restricted assets	7,183,419	9,227,139	-22.15 %
Capital assets, net	11,752,483	9,328,234	25.99 %
Total assets	<u>22,650,460</u>	<u>22,579,278</u>	0.32 %
Deferred outflows of resources	<u>1,343,363</u>		N/A %
Current liabilities	1,058,941	999,174	5.98 %
Long-term debt outstanding	12,338,026	13,035,135	-5.35 %
Net pension liability	14,687,185		N/A %
Total liabilities	<u>28,084,152</u>	<u>14,034,309</u>	100.11 %
Deferred inflows of resources	<u>2,237,554</u>		N/A %
Net position:			
Net investment in capital assets	6,094,087	6,131,710	-0.61 %
Restricted	798,870	1,063,846	-24.91 %
Unrestricted	(13,220,840)	1,349,413	-1079.75 %
Total net position	<u>\$ (6,327,883)</u>	<u>\$ 8,544,969</u>	-174.05 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	(\$ 13,220,840)
Less unrestricted deficit in net position resulting from recognition of the net pension Liability	<u>15,581,376</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 2,360,536</u>

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

- Increase in net capital assets in the amount of \$2,424,249.
- The principal retirement of \$697,109 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$15,022,184 and \$14,913,158, respectively. The total cost of all programs and services was \$14,155,076 for 2015 and \$14,783,391 for 2014.

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

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

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

**Table 2
Changes in Net Position**

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 203,232	\$ 181,937	11.70 %
Operating grants and contributions	3,203,782	3,287,244	(2.54) %
General revenues:			
Property taxes	4,307,896	4,142,620	3.99 %
Grants and contributions not restricted	7,241,288	7,181,590	0.83 %
Investment earnings	54,776	107,824	(49.20) %
Other	11,210	11,943	(6.14) %
Total revenues	<u>15,022,184</u>	<u>14,913,158</u>	0.73 %
Expenses:			
Instruction	6,799,157	7,260,081	(6.35) %
Support services	4,878,041	5,700,800	(14.43) %
Non-instructional	1,022,171	1,049,355	(2.59) %
Pension expense	955,663		N/A %
Interest on long-term liabilities	500,044	773,155	(35.32) %
Total expenses	<u>14,155,076</u>	<u>14,783,391</u>	(4.25) %
Increase (Decrease) in net position	<u>867,108</u>	<u>129,767</u>	568.20 %
Net Position, July 1, as previously reported	<u>8,544,969</u>	<u>8,436,538</u>	1.29 %
Prior Period Adjustment	<u>(15,739,960)</u>	<u>(21,336)</u>	(73,671.84) %
Net Position, July 1, as restated	<u>(7,194,991)</u>	<u>8,415,202</u>	(185.50) %
Net Position, June 30	<u>\$ (6,327,883)</u>	<u>\$ 8,544,969</u>	(174.05) %

Governmental activities

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

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

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

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2015	2014	
Instruction	\$ 6,799,157	\$ 7,260,081	(6.35) %
Support services	4,878,041	5,700,800	(14.43) %
Non-instructional	1,022,171	1,049,355	(2.59) %
Pension Expense	955,663		N/A %
Interest on long-term liabilities	500,044	773,155	(35.32) %
Total expenses	\$ 14,155,076	\$ 14,783,391	(4.25) %

	Net (Expense) Revenue		Percentage Change
	2015	2014	
Instruction	\$ (5,594,656)	\$ (6,031,358)	(7.24) %
Support services	(3,768,350)	(4,519,216)	(16.61) %
Non-instructional	36,239	9,519	280.70 %
Pension Expense	(955,663)		N/A %
Interest on long-term liabilities	(465,632)	(773,155)	(39.78) %
Total net (expense) revenue	\$ (10,748,062)	\$ (11,314,210)	(5.00) %

- Net cost of governmental activities (\$10,748,062 for 2015 and \$11,314,210 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$4,307,896 for 2015 and \$4,142,620 for 2014) and state and federal revenues (\$7,241,288 for 2015 and \$7,181,590 for 2014).
- Investment earnings amounted to \$54,776 for 2015 and \$107,824 for 2014.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$9,992,165, a decrease of \$2,618,419, which includes a decrease in inventory of \$1,600. \$2,453,822 or 24.56% 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 \$7,538,343 or 75.44% 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.

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

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$290,845. The fund balance of Other Governmental Funds showed a decrease in the amount of \$364,939, which includes a decrease in reserve for inventory of \$1,600., due primarily to capital projects and repairs being completed. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I-A Basic Fund	no increase or decrease
Capital Project fund	\$ (2,544,325)

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$19,513,069, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$2,677,812 from 2014. Total accumulated depreciation as of June 30, 2015, was \$7,760,586, and total depreciation expense for the year was \$427,758, resulting in total net capital assets of \$11,752,483.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 65,155	\$ 65,155	0.00 %
Construction in Progress	3,120,678	566,437	450.93 %
Buildings	6,090,579	6,266,729	(2.81) %
Building improvements	1,657,806	1,535,811	7.94 %
Improvements other than buildings	154,938	164,879	(6.03) %
Mobile equipment	513,779	521,591	(1.50) %
Furniture and equipment	149,548	207,632	(27.97) %
Total	\$ 11,752,483	\$ 9,328,234	25.99 %

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

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

Debt Administration. At June 30, 2015, the District had \$12,338,026 in outstanding long-term debt, of which \$700,752 is due within one year. The liability for compensated absences increased \$4,675 from the prior year.

The District maintains an AA-Stable bond rating.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	Percentage Change
General obligation bonds payable	\$ 9,555,000	\$ 9,750,000	(2.00) %
Premiums/Discounts	181,162	190,697	
General obligation refunding bonds payable	650,000	850,000	(23.53) %
Premiums/Discounts	10,224	13,632	
Limited obligation refunding bonds payable	1,035,000	1,275,000	(18.82) %
Premiums/Discounts	16,201	21,601	(25.00) %
Qualified school construction bonds payable	797,153	845,594	(5.73) %
Compensated absences payable	93,286	88,611	5.28 %
Total	<u>\$ 12,338,026</u>	<u>\$ 13,035,135</u>	(5.35) %

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

CURRENT ISSUES

The Holly Springs School District is financially stable. The District is proud of its community support of the public schools.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Holly Springs School District, 840 Highway 178 East, Holly Springs, MS 38635.

FINANCIAL STATEMENTS

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HOLLY SPRINGS SCHOOL DISTRICT

Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,024,473
Due from other governments	602,190
Other receivables, net	40,546
Inventories	18,431
Prepaid items	28,918
Restricted assets	7,183,419
Capital assets, non-depreciable:	
Land	65,155
Construction in progress	3,120,678
Capital assets, net of accumulated depreciation:	
Buildings	6,090,579
Building improvements	1,657,806
Improvements other than buildings	154,938
Mobile equipment	513,779
Furniture and equipment	149,548
Total Assets	22,650,460
Deferred Outflows of Resources	
Deferred outflows - pensions	1,343,363
Total deferred outflows of resources	1,343,363
Liabilities	
Accounts payable and accrued liabilities	905,812
Interest payable on long-term liabilities	153,129
Long-term liabilities, due within one year:	
Capital related liabilities	700,752
Long-term liabilities, due beyond one year:	
Capital related liabilities	11,543,988
Non-capital related liabilities	93,286
Net pension liability	14,687,185
Total Liabilities	28,084,152
Deferred Inflows of Resources	
Deferred inflows - pensions	2,237,554
Total deferred inflows of resources	2,237,554
Net Position	
Net investment in capital assets	6,094,087
Restricted for:	
Expendable:	
School-based activities	146,117
Debt service	506,278
Unemployment benefits	32,391
Ad valorem	114,084
Unrestricted	(13,220,840)
Total Net Position	\$ (6,327,883)

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

HOLLY SPRINGS SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,799,157	\$ 117,356	\$ 1,087,145	\$ (5,594,656)
Support services	4,878,041	23,875	1,085,816	(3,768,350)
Non-instructional	1,022,171	27,589	1,030,821	36,239
Pension expense	955,663			(955,663)
Interest on long-term liabilities	500,044	34,412		(465,632)
Total Governmental Activities	\$ 14,155,076	\$ 203,232	\$ 3,203,782	\$ (10,748,062)
General Revenues:				
Taxes:				
General purpose levies				3,338,163
Debt purpose levies				969,733
Unrestricted grants and contributions:				
State				7,128,196
Federal				113,092
Unrestricted investment earnings				54,776
Other				11,210
Total General Revenues				11,615,170
Change in Net Position				867,108
Net Position - Beginning, as previously reported				8,544,969
Prior Period Adjustments				(15,739,960)
Net Position - Beginning, as restated				(7,194,991)
Net Position - Ending				\$ (6,327,883)

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

HOLLY SPRINGSSCHOOL DISTRICT

Governmental Funds

**Balance Sheet
June 30, 2015**

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I-A Basic Fund	Capital Project Fund		
Assets					
Cash and cash equivalents	\$ 2,482,773	\$	\$ 7,055,847	\$ 541,700	\$ 10,080,320
Cash with fiscal agents				127,572	127,572
Due from other governments	167,578	169,826		264,786	602,190
Other receivables, net	28,192	470			28,662
Due from other funds	192,160	371		2,507	195,038
Advance to other funds	24,297				24,297
Inventories				18,431	18,431
Prepaid items	28,918				28,918
Total assets	2,923,918	170,667	7,055,847	954,996	11,105,428
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 189,670	\$ 52,503	\$ 497,307	\$ 53,281	\$ 792,761
Due to other funds	522	118,164		64,914	183,600
Advances from other funds				24,297	24,297
Other payables	112,605				112,605
Total Liabilities	302,797	170,667	497,307	142,492	1,113,263
Fund Balances:					
Nonspendable:					
Inventory				18,431	18,431
Advances	24,297				24,297
Prepaid items	28,918				28,918
Restricted:					
Debt service				659,407	659,407
Capital projects			6,558,540	27,804	6,586,344
Ad valorem	114,084				114,084
Unemployment benefits				32,391	32,391
Assigned:					
School activities				74,471	74,471
Unassigned	2,453,822				2,453,822
Total Fund Balances	2,621,121	-	6,558,540	812,504	9,992,165
Total Liabilities and Fund Balances	\$ 2,923,918	\$ 170,667	\$ 7,055,847	\$ 954,996	\$ 11,105,428

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

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

Exhibit C-1

Total fund balances for governmental funds \$ 9,992,165

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	\$ 65,155	
Construction in progress	3,120,678	
Buildings	10,574,905	
Building improvements	2,263,882	
Improvements other than buildings	248,515	
Mobile equipment	1,689,352	
Furniture and equipment	1,550,582	
Accumulated depreciation	<u>(7,760,586)</u>	11,752,483

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

Net pension liability (14,687,185)

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

Deferred outflows of resources related to pensions	1,343,363	
Deferred inflows of resources related to pensions	<u>(2,237,554)</u>	(15,581,376)

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

General obligation bonds	(10,205,000)	
Limited obligation bonds	(1,035,000)	
Qualified school construction bonds	(797,153)	
Compensated absences	(93,286)	
Unamortized premiums	(207,587)	
Accrued interest payable	<u>(153,129)</u>	(12,491,155)

Net Position of governmental activities \$ (6,327,883)

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

HOLLY SPRINGSSCHOOL DISTRICT

Governmental Funds

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

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I-A Basic Fund	Capital Project Fund		
Revenues:					
Local sources	\$ 3,519,937	\$	\$ 19,564	\$ 1,003,200	\$ 4,542,701
State sources	6,842,583			576,243	7,418,826
Federal sources	160,294	1,207,629		1,692,734	3,060,657
Total Revenues	10,522,814	1,207,629	19,564	3,272,177	15,022,184
Expenditures:					
Instruction	5,795,258	587,725		798,628	7,181,611
Support services	3,975,309	522,701		746,181	5,244,191
Noninstructional services		80,421		978,994	1,059,415
Facilities acquisition and construction			2,563,889	202,903	2,766,792
Debt service:					
Principal				683,441	683,441
Interest				717,182	717,182
Other				6,790	6,790
Total Expenditures	9,770,567	1,190,847	2,563,889	4,134,119	17,659,422
Excess (Deficiency) of Revenues over (under) Expenditures	752,247	16,782	(2,544,325)	(861,942)	(2,637,238)
Other Financing Sources (Uses):					
Insurance recovery	11,219				11,219
Sale of transportation equipment	9,200				9,200
Operating transfers in	29,049			863,870	892,919
Operating transfers out	(510,870)	(16,782)		(365,267)	(892,919)
Total Other Financing Sources (Uses)	(461,402)	(16,782)	-	498,603	20,419
Net Change in Fund Balances	290,845	-	(2,544,325)	(363,339)	(2,616,819)
Fund Balances:					
July 1, 2014	2,330,276		9,102,865	1,177,443	12,610,584
Increase (Decrease) in reserve for inventory				(1,600)	(1,600)
June 30, 2015	\$ 2,621,121	\$ -	\$ 6,558,540	\$ 812,504	\$ 9,992,165

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ (2,616,819)

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	\$ 2,870,514	
Depreciation expense	<u>(427,758)</u>	2,442,756

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.

(18,507)

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

Payments of debt principal	683,441	
Accrued interest payable	<u>205,585</u>	889,026

4. In the statement of activities, net pension liability and the deferred outflow -pensions (for contributions made subsequent to the measurement date) are recorded, while they are not recorded in the governmental funds. The amounts are:

Pension expense	(955,663)	
Contributions made after the measurement date	<u>1,114,247</u>	158,584

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

Change in compensated absences	(4,675)	
Change in inventory reserve	(1,600)	
Amortization of deferred charges, premiums and discounts	<u>18,343</u>	12,068

Change in Net Position of governmental activities \$ 867,108

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

HOLLY SPRINGS SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2015

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 630,642
Other receivables, net	1,287
Due from other funds	2,547
Total Assets	<u>\$ 634,476</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 593,180
Due to other funds	13,985
Due to student clubs	26,485
Other payables	826
Total Liabilities	<u>\$ 634,476</u>

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

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HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

For financial reporting purposes, Holly Springs 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.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The school district reports the following major governmental funds:

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

Title I-A Basic Fund – This fund is federally funded to provide supplemental funds for the education of the district's disadvantaged students.

Capital Project Fund – This fund is to account for all transactions involving the construction of the new intermediate school.

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 fund is used to account for all payroll transactions including salaries and wages, withholding, employee benefits, and payroll taxes.

Accounts Payable Clearing Fund – This fund is used to account for the payment of claims against the school district.

Student Club Funds – These funds are used to account for student club activities at each of the five schools which comprise the district.

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.

FIDUCIARY FUNDS

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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.

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

7. Deferred outflows/inflows of resources

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

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

See Note 9 for further details.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

11. Fund Balances

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

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

The board of the Holly Springs School District formally adopted the *Minimum Unassigned Fund Balance* policy (Policy DGA) which states that the goal of the District is to achieve and maintain an unassigned fund balance in the General Fund at fiscal year-end of no less than 7% of all revenues (functions 0000-5999). If the assigned fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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.

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 \$ 10,080,320 and \$630,642, respectively.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

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

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution’s trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

Cash with Fiscal Agents

The carrying amount of school district’s cash with fiscal agents held by financial institutions was \$127,572.

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I-A Basic	\$ 118,164
	Other governmental funds	64,914
	Fiduciary funds	9,082
Title I-A Basic	Fiduciary funds	371
Other governmental funds	General Fund	77
	Fiduciary funds	2,430
Fiduciary funds	General Fund	445
	Fiduciary funds	2,102
Total		\$ 197,585

The purposes of the interfund loans were to cover federal funds and/or ad valorem taxes not received prior to yearend, interest earned on fiduciary fund bank accounts, and voided check amounts remaining in fiduciary funds.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ <u>24,297</u>

The advances were made to the Food Service Fund to cover shortfalls in prior years.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 3 – Inter-fund Receivables, Payables and Transfers (Continued)

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 510,870
Title I-A Basic	General Fund	16,782
Other governmental funds	General Fund	12,267
	Other governmental funds	353,000
Total		\$ 892,919

The principal purpose of the interfund transfers was to provide for daily operation. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

Note 4 – Restricted Assets

The restricted assets represent the cash with fiscal agent balance totaling \$ 127,572 of MAEP Limited Obligation Bond/Note Fund and cash balance of \$7,055,847 of the Capital Project Fund which is restricted for the construction of a new school building.

Note 5 – Capital Assets

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

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 65,155	\$	\$	\$ 65,155
Construction-in-progress	566,437	2,554,241		3,120,678
Total non-depreciable capital assets	631,592	2,554,241	-	3,185,833
<u>Depreciable capital assets:</u>				
Buildings	10,574,905			10,574,905
Building improvements	2,051,331	212,551		2,263,882
Improvements other than buildings	248,515			248,515
Mobile equipment	1,789,433	84,148	184,229	1,689,352
Furniture and equipment	1,539,481	19,574	8,473	1,550,582
Total depreciable capital assets	16,203,665	316,273	192,702	16,327,236
<u>Less accumulated depreciation for:</u>				
Buildings	4,308,176	176,150		4,484,326
Building improvements	515,520	90,556		606,076
Improvements other than buildings	83,636	9,941		93,577
Mobile equipment	1,267,842	73,537	165,806	1,175,573
Furniture and equipment	1,331,849	77,574	8,389	1,401,034
Total accumulated depreciation	7,507,023	427,758	174,195	7,760,586
Total depreciable capital assets, net	8,696,642	(111,485)	18,507	8,566,650
Governmental activities capital assets, net	\$ 9,328,234	\$ 2,442,756	\$ 18,507	\$ 11,752,483

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 308,313
Support services	114,222
Non-instructional	5,223
Total depreciation expense - Governmental activities	\$ 427,758

The capital assets above include significant amounts of buildings and furniture and fixtures which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Construction in progress is composed of:

	Spent to June 30, 2015	Remaining Commitment
New Intermediate School	\$ 3,120,678	\$ 6,189,936

Construction projects included in governmental activities are funded with proceeds of a general obligation bond.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. General obligation bonds payable	\$ 9,750,000	\$	\$ 195,000	\$ 9,555,000	\$ 195,000
General obligation refunding bonds payable	850,000		200,000	650,000	210,000
Premiums/Discounts	204,329		12,943	191,386	
B. Limited obligation refunding bonds payable	1,275,000		240,000	1,035,000	245,000
Premiums/Discounts	21,601		5,400	16,201	
C. Qualified school construction bonds payable	845,594		48,441	797,153	50,752
D. Compensated absences payable	88,611	4,675		93,286	
Total	\$ 13,035,135	\$ 4,675	\$ 701,784	\$ 12,338,026	\$ 700,752

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 6 – Long-term Liabilities (Continued)

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Refunding Bonds					
Series 2009	3.5-4.0%	6/1/2009	6/18/2018	\$ 1,785,000	\$ 650,000
2. Capital Projects -					
Int. School	3.5-4.75%	8/1/2013	8/1/2033	9,750,000	9,555,000
Total				<u>\$ 11,535,000</u>	<u>\$ 10,205,000</u>

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

1. General obligation bond issue of June 1, 2009:

Year Ending June 30	Principal	Interest	Total
2016	\$ 210,000	\$ 24,413	\$ 234,413
2017	215,000	17,062	232,062
2018	225,000	9,000	234,000
Total	<u>\$ 650,000</u>	<u>\$ 50,475</u>	<u>\$ 700,475</u>

This debt will be retired from the General Obligations Refunding Bond Fund.

2. General obligation bond issue of August 1, 2013:

Year Ending June 30	Principal	Interest	Total
2016	\$ 195,000	\$ 393,725	\$ 588,725
2017	195,000	386,900	581,900
2018	195,000	380,075	575,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021 – 2025	2,525,000	1,548,460	4,073,460
2026 – 2030	3,115,000	977,593	4,092,593
2031 – 2035	2,675,000	235,891	2,910,891
Total	<u>\$ 9,555,000</u>	<u>\$ 4,657,331</u>	<u>\$ 14,212,331</u>

This debt will be retired from the GO – Intermediate School Construction Bond Fund.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 6 – Long-term Liabilities (Continued)

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 405,000	\$ 418,138	\$ 823,138
2017	410,000	403,962	813,962
2018	420,000	389,075	809,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021 – 2025	2,525,000	1,548,460	4,073,460
2026 – 2030	3,115,000	977,593	4,092,593
2031 – 2035	2,675,000	235,891	2,910,891
Total	\$ 10,205,000	\$ 4,707,806	\$ 14,912,806

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2015, the amount of outstanding bonded indebtedness was equal to 14.5% of property assessments as of October 1, 2014.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State and capital improvement					
Refunding bonds, Series 2009	3.00-3.5%	5/15/2009	2/1/2018	\$ 2,190,000	\$ 1,035,000
Total				\$ 2,190,000	\$ 1,035,000

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 245,000	\$ 30,994	\$ 275,994
2017	255,000	22,869	277,869
2018	535,000	14,175	549,175
Total	\$ 1,035,000	\$ 68,038	\$ 1,103,038

This debt will be retired from the MAEP Refunding Bond Fund.

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 6 – Long-term Liabilities (Continued)

C. Qualified school construction bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Energy efficiency lease purchase	2.44%-4.77%	6/29/2012	6/29/2027	\$ 935,961	\$ 797,153

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 50,752	\$ 38,024	\$ 88,776
2017	53,173	35,603	88,776
2018	55,708	33,067	88,775
2019	58,367	30,410	88,777
2020	61,151	27,626	88,777
2021 – 2025	352,391	91,490	443,881
2026 – 2027	165,611	11,942	177,553
Total	\$ 797,153	\$ 268,162	\$ 1,065,315

D. Compensated absences payable

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

Note 7 – Short-Term Financing

During the fiscal year ended June 30, 2015, the school district participated in the following short-term financing for the purpose of roof replacement and other necessary repairs:

A. Bank-financed short term debt.

The school district issued a three mill note payable to First Security Bank, and the proceeds from such issuance was accounted for as a current liability in the Building Improvement fund of the school district. Once the cash flow was available, the district made a payment consisting of principal and interest to the trustee.

All transactions related to participation in this program are accounted for as part of the school district's Building Improvement fund.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 7 – Short-Term Financing (Continued)

B. Changes in short-term debt activity recorded in the governmental activities during fiscal year 2015 are as follows:

Description	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015
Three Mill Note	\$ 175,000	\$ 182,000	\$ 357,000	\$ -

Note 8 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 9 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$1,114,247, \$1,164,283 and \$1,062,823, respectively, which equaled the required contributions for each year.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

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

At June 30, 2015, the school district reported a liability of \$14,687,185 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, The school district's proportion was 0.121 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$955,663. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 229,116	\$
Net difference between projected and actual earnings on pension plan investments		2,129,015
Changes in proportion and differences between District contributions and proportionate share of Contributions		108,539
District contributions subsequent to the measurement date	1,114,247	
Total	\$ 1,343,363	\$ 2,237,554

\$1,114,247 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	(488,881)
2017		(488,881)
2018		(498,423)
2019		(532,253)
Total		(2,008,438)

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

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

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

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

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

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District’s proportionate share of the net pension liability	\$ 20,023,012	\$ 14,687,184	\$ 10,236,311

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 10 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (06/31/2014)	\$ 16,904,243
Deferred outflows - contributions made during fiscal year 2014	<u>(1,164,283)</u>
Total prior period adjustment related to GASB 68 and 71	<u>\$ (15,739,960)</u>
Total	<u><u>\$ (15,739,960)</u></u>

Note 11 – Contingencies

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

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

Note 12 – Risk Management

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

Note 13 – Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2015, the subsidy payments amounted to \$34,412.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2015

Note 14 - Insurance loss recoveries

The Holly Springs School District received \$11,219 in insurance loss recoveries related to school bus damage during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as general revenues - other and allocated among the expense functions support services.

Note 15 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$13,220,840) includes the effect of deferring the recognition of expense resulting from a deferred outflow of pensions. The \$1,343,363 balance of the deferred outflow of resources, at June 30, 2015 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$13,220,840) includes the effect of deferring the recognition of revenue resulting from a deferred inflow of pensions. The \$2,237,554 balance of the deferred inflow of resources, at June 30, 2015 will be recognized as revenue and will increase the unrestricted net position over the next 4 years.

Note 16 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Holly Springs School District evaluated the activity of the district through February 1, 2016 and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>
Three Mill Note	1.6%	8/14/2015	8/14/2017	\$360,000

REQUIRED SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,493,494	\$ 3,519,938	\$ 3,519,937	\$ 26,444	\$ (1)
State sources	6,640,549	6,857,583	6,842,583	217,034	(15,000)
Federal sources	442,194	145,294	160,294	(296,900)	15,000
Total Revenues	10,576,237	10,522,815	10,522,814	(53,422)	(1)
Expenditures:					
Instruction	5,768,068	5,812,928	5,795,258	(44,860)	17,670
Support services	4,944,739	4,126,737	3,975,309	818,002	151,428
Total Expenditures	10,712,807	9,939,665	9,770,567	773,142	169,098
Excess (Deficiency) of Revenues over (under) Expenditures	(136,570)	583,150	752,247	719,720	169,097
Other Financing Sources (Uses):					
Insurance recovery		11,219	11,219	11,219	-
Sale of transportation equipment		9,200	9,200	9,200	-
Operating transfers in	1,806,810	29,049	29,049	(1,777,761)	-
Operating transfers out	(2,120,320)	(510,870)	(510,870)	1,609,450	-
Total Other Financing Sources (Uses)	(313,510)	(461,402)	(461,402)	(147,892)	-
Net Change in Fund Balances	(450,080)	121,748	290,845	571,828	169,097
Fund Balances:					
July 1, 2014	2,321,156	2,330,276	2,330,276	9,120	-
June 30, 2015	\$ 1,871,076	\$ 2,452,024	\$ 2,621,121	\$ 580,948	\$ 169,097

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

HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I-A Basic Fund

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	\$ 363	\$	\$ 363	\$ (363)
Federal sources	1,462,187	1,207,629	1,207,629	(254,558)	-
Total Revenues	1,462,187	1,207,992	1,207,629	(254,195)	(363)
Expenditures:					
Instruction	723,530	607,057	587,725	116,473	19,332
Support services	684,452	525,810	522,701	158,642	3,109
Noninstructional services	112,173	81,573	80,421	30,600	1,152
Total Expenditures	1,520,155	1,214,440	1,190,847	305,715	23,593
Excess (Deficiency) of Revenues over (under) Expenditures	(57,968)	(6,448)	16,782	51,520	23,230
Other Financing Sources (Uses):					
Operating transfers out	(44,935)	(16,782)	(16,782)	28,153	-
Total Other Financing Sources (Uses)	(44,935)	(16,782)	(16,782)	28,153	-
Net Change in Fund Balances	(102,903)	(23,230)	-	79,673	23,230
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ (102,903)	\$ (23,230)	\$ 0	\$ 79,673	\$ 23,230

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

HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS**

Last 10 Fiscal Years*

	<u>2015</u>
District's proportion of the net pension liability (asset)	\$ 14,687,185
District's proportionate share of the net pension liability (asset)	0.121%
District's covered-employee payroll	7,392,260
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	198.683%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years*

		<u>2015</u>
Contractually required contribution	\$	1,114,247
Contributions in relation to the contractually required contribution		1,114,247
Contribution deficiency (excess)	\$	<u><u>-</u></u>
District's covered-employee payroll		7,074,584
Contributions as a percentage of covered-employee payroll		15.75%

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Required Supplementary Information
For Year Ended June 30, 2015

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

None.

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SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 295,567
National school lunch program	10.555	667,606
Summer food service program for children	10.559	40,867
Total child nutrition cluster		<u>1,004,040</u>
Fresh Fruit and Vegetable Program	10.582	32,109
Total passed-through Mississippi Department of Education		<u>1,036,149</u>
Total U.S. Department of Agriculture		<u>1,036,149</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	32,200
Total U.S. Department of Defense		<u>32,200</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	40,534
Total Federal Communications Commission		<u>40,534</u>
<u>Environmental Protection Agency</u>		
Passed-through Mississippi Department of Education:		
State clean diesel grant program	66.040	15,000
Total Environmental Protection Agency		<u>15,000</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to state	84.126	1,022
Total passed-through Mississippi Department of Rehabilitation Services		<u>1,022</u>
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	22,872
Improving teacher quality-State Grants	84.367	128,821
Title I grants to local educational agencies	84.010	1,207,629
Subtotal		<u>1,359,322</u>

- Continued -

HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

- Continued -

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Education - Continued</u>		
Special education cluster:		
Special education - grants to states	84.027	441,492
Special education - preschool grants	84.173	28,988
Total special education cluster		<u>470,480</u>
Total passed-through Mississippi Department of Education		<u>1,829,802</u>
Total U.S. Department of Education		<u><u>1,830,824</u></u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medicaid cluster:		
Medical assistance program	93.778	34,036
Total Medicaid cluster		<u>34,036</u>
Total passed-through Mississippi Department of Education		<u>34,036</u>
Total U.S. Department of Health and Human Services		<u><u>34,036</u></u>
Total for All Federal Awards		<u><u>\$ 2,988,743</u></u>

NOTES TO SCHEDULE

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

HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 9,718,811	7,216,574	741,566	702,200	1,058,471
Other	7,940,611	1,554,007	188,739	11,890	6,185,975
Total	<u>\$ 17,659,422</u>	<u>8,770,581</u>	<u>930,305</u>	<u>714,090</u>	<u>7,244,446</u>
Total number of students *	<u>1,482</u>				
Cost per student	<u>\$ 11,916</u>	<u>5,918</u>	<u>628</u>	<u>482</u>	<u>4,888</u>

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

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

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

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

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

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

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OTHER INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 3,519,937	\$ 3,447,817	\$ 3,249,040	\$ 3,170,484
State sources	6,842,583	6,730,403	6,642,775	6,765,301
Federal sources	160,294	107,800	178,895	230,422
Total Revenues	10,522,814	10,286,020	10,070,710	10,166,207
Expenditures:				
Instruction	5,795,258	5,658,816	5,723,902	5,695,731
Support services	3,975,309	4,486,840	4,310,462	4,232,046
Debt service:				
Interest		2,315		
Total Expenditures	9,770,567	10,147,971	10,034,364	9,927,777
Excess (Deficiency) of Revenues over (under) Expenditures	752,247	138,049	36,346	238,430
Other Financing Sources (Uses):				
Bonds and notes issued				39,744
Insurance recovery	11,219	242,907		
Sale of transportation equipment	9,200			
Operating transfers in	29,049	150,562	73,521	61,550
Operating transfers out	(510,870)	(580,048)	(675,019)	(477,153)
Total Other Financing Sources (Uses)	(461,402)	(186,579)	(601,498)	(375,859)
Net Change in Fund Balances	290,845	(48,530)	(565,152)	(137,429)
Fund Balances:				
Beginning of period, as previously reported	2,330,276	2,389,781	2,954,933	3,166,579
Prior period adjustments		(10,975)		(74,217)
Beginning of period, as restated	2,330,276	2,378,806	2,954,933	3,092,362
End of Period	\$ 2,621,121	\$ 2,330,276	\$ 2,389,781	\$ 2,954,933

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 4,542,701	\$ 4,444,324	\$ 3,746,036	\$ 3,620,927
State sources	7,418,826	7,368,059	7,270,316	7,369,179
Federal sources	3,060,657	3,100,775	3,094,281	3,225,954
Total Revenues	15,022,184	14,913,158	14,110,633	14,216,060
Expenditures:				
Instruction	7,181,611	7,102,524	7,194,141	7,285,693
Support services	5,244,191	5,868,071	5,726,199	5,559,389
Noninstructional services	1,059,415	1,037,451	1,038,082	989,337
Facilities acquisition and construction	2,766,792	566,437	918,531	86,173
Debt service:				
Principal	683,441	471,236	723,875	692,853
Interest	717,182	126,743	143,261	109,684
Other	6,790	287,481	3,300	3,050
Total Expenditures	17,659,422	15,459,943	15,747,389	14,726,179
Excess (Deficiency) of Revenues over (under) Expenditures	(2,637,238)	(546,785)	(1,636,756)	(510,119)
Other Financing Sources (Uses):				
Bonds and notes issued		9,750,000		494,744
QSCB proceeds				935,961
Insurance recovery	11,219	242,907		
Premiums on bonds and refunding bonds issued		190,697		
Sale of transportation equipment	9,200			
Operating transfers in	892,919	747,861	777,702	538,703
Operating transfers out	(892,919)	(747,861)	(777,702)	(538,703)
Total Other Financing Sources (Uses)	20,419	10,183,604	0	1,430,705
Net Change in Fund Balances	(2,616,819)	9,636,819	(1,636,756)	920,586
Fund Balances:				
Beginning of period, as previously reported	12,610,584	2,991,308	4,631,693	3,755,226
Prior period adjustments		(10,975)		(53,536)
Beginning of period, as restated	12,610,584	2,980,333	4,631,693	3,701,690
Increase (Decrease) in reserve for inventory	(1,600)	(6,568)	(3,629)	9,417
End of Period	\$ 9,992,165	\$ 12,610,584	\$ 2,991,308	\$ 4,631,693

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Holly Springs School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holly Springs School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Holly Springs School District's basic financial statements and have issued our report thereon dated February 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Holly Springs School District's internal control over financial reporting 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 Holly Springs School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Holly Springs 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 the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

- Continued -

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holly Springs School District's financial statements are free of 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*.

However, we noted an immaterial instance of noncompliance that we have reported to the management of Holly Springs School District, in the Independent Auditor's Report on Compliance with State Laws and Regulations report dated February 1, 2016, included within this document.

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.

M. M. Winkler & Associates, PLLC

February 1, 2016

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

Superintendent and School Board
Holly Springs School District

Report on Compliance for Each Major Federal Program

We have audited Holly Springs 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 Holly Springs School District's major federal programs for the year ended June 30, 2015. Holly Springs School District's major federal program is 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 Holly Springs 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 Holly Springs School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Holly Springs 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 its major federal program for the year ended June 30, 2015.

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

- Continued -

Report on Internal Control Over Compliance

Management of Holly Springs School District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Holly Springs School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Holly Springs 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

M. M. Winkler & Associates, PLLC

February 1, 2016

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

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

Superintendent and School Board
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2015, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated February 1, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$0 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

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

-Continued-

Finding

Section 31-7-12, Miss. Code Ann. (1972), allows the purchase of commodities approved by the Department of Finance and Administration from a state contract vendor at a price not exceeding the state contract price established for such commodity, without obtaining or advertising for competitive bids. The district used the Mississippi Department of Information Technology Services Express Product List for the purchase of computers and paid \$10 more per computer than the state contract amount.

Recommendation

The District should insure when using state contracts to purchase commodities that it pays a price not exceeding the state contract amount.

District's Response

The Holly Springs School District will comply with the auditor's recommendation.

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

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

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

M. M. Winkler & Associates, PLLC

February 1, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

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? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

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

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027 & 84.173	Special Education Cluster
84.010	Title I Grants to Local Education Agencies

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

**HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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