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**MARSHALL COUNTY SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2016**

**Charles L. Shivers, CPA, LLC  
Ridgeland, MS**

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**INDEPENDENT AUDITOR'S REPORT**

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# CHARLES L. SHIVERS, CPA, LLC

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## INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board  
Marshall County School District

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Marshall County School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my 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 Marshall County School District, as of June 30, 2016, 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, schedule of the district's proportionate share of the net pension liability and schedule of district contributions 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marshall County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 my opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated October 25, 2016, on my consideration of the Marshall County School District's internal control over financial reporting and on my 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 my 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 Marshall County School District's internal control over financial reporting and compliance.

*Charles L Shivers, CPA, LLC*

Ridgeland, MS  
October 25, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

The following discussion and analysis of the Marshall County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. 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 2016 decreased \$3,401,216, including a prior period adjustment of (\$11,796), which represents a 27% decrease from fiscal year 2015. Total net position for 2015 decreased \$31,903,265, including a prior period adjustment of (\$29,744,305), which represents a 164% decrease from fiscal year 2014.
- General revenues amounted to \$21,917,696 and \$21,342,624, or 79% and 78% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,866,057, or 21% of total revenues for 2016, and \$5,960,520, or 22% of total revenues for 2015.
- The District had \$31,173,173 and \$29,462,104 in expenses for fiscal years 2016 and 2015; only \$5,866,057 for 2016 and \$5,960,520 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$21,917,696 for 2016 and \$21,342,624 for 2015 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$20,758,086 in revenues and \$20,579,644 in expenditures for 2016, and \$20,158,312 in revenues and \$21,589,501 in expenditures in 2015. The General Fund's fund balance increased by \$143,064, including a prior period adjustment of (\$61,930) from 2015 to 2016, and decreased by \$931,474, including a prior period adjustment of \$276,510, from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$736,950 for 2016 and decreased by \$745,494 for 2015. The decrease for 2016 was due to the addition/disposal of capital assets coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$906,980 for 2016 and increased by \$1,470,190 for 2015. This decrease for 2016 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$8,927 for 2016 and decreased by \$8,968 for 2015.

**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, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, pension expense, 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.

## **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, Schedule of the District's Proportionate Share of the New Pension Liability, and Schedule of District Contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

## Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 \$15,864,578 as of June 30, 2016.

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

Table 1 presents a summary of the District's net position at June 30, 2016 and June 30, 2015.

**Table 1**  
**Condensed Statement of Net Position**

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 3,336,216	\$ 5,052,541	(33.97) %
Restricted assets	3,339,783	1,654,618	101.85 %
Capital assets, net	18,736,304	19,473,254	(3.78) %
<b>Total assets</b>	<b>25,412,303</b>	<b>26,180,413</b>	<b>(2.93) %</b>
<b>Deferred outflows of resources</b>	<b>5,337,849</b>	<b>2,855,822</b>	<b>86.91 %</b>
Current liabilities	236,740	404,458	(41.47) %
Long-term debt outstanding	8,216,306	9,123,286	(9.94) %
Net pension liability	37,358,962	27,917,789	33.82 %
<b>Total liabilities</b>	<b>45,812,008</b>	<b>37,445,533</b>	<b>22.34 %</b>
<b>Deferred inflows of resources</b>	<b>802,722</b>	<b>4,054,064</b>	<b>(80.20) %</b>
<b>Net position:</b>			
Net investment in capital assets	13,166,130	12,942,423	1.73 %
Restricted	2,718,441	3,378,837	(19.55) %
Unrestricted	(31,749,149)	(28,784,622)	(10.30) %
<b>Total net position</b>	<b>\$ (15,864,578)</b>	<b>\$ (12,463,362)</b>	<b>(27.29) %</b>

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$(31,749,149)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	32,851,635
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 1,102,486</u>

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

- Decrease in net capital assets in the amount of \$736,950.
- The principal retirement of \$1,134,670 of long-term debt.
- Inclusion of net pension liability of \$37,358,962.

### Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$27,783,753 and \$27,303,144, respectively. The total cost of all programs and services was \$31,173,173 for 2016 and \$29,462,104 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

**Table 2**  
**Changes in Net Position**

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 812,272	\$ 715,222	13.57 %
Operating grants and contributions	5,053,785	5,142,841	(1.73) %
Capital Grants and Contributions	0	102,457	(100.00) %
General revenues:			
Property taxes	5,679,652	5,304,461	7.07 %
Grants and contributions not restricted	16,149,629	15,937,199	1.33 %
Investment earnings	66,599	68,782	(3.17) %
Other	21,816	32,182	(32.21) %
<b>Total revenues</b>	<u><b>27,783,753</b></u>	<u><b>27,303,144</b></u>	<b>1.76 %</b>
<b>Expenses:</b>			
Instruction	13,316,138	13,177,455	1.05 %
Support services	9,515,191	12,124,985	(21.52) %
Non-instructional	2,067,880	2,009,788	2.89 %
Pension expense	6,023,302	1,908,401	215.62 %
Interest on long-term liabilities	250,662	241,475	3.80 %
<b>Total expenses</b>	<u><b>31,173,173</b></u>	<u><b>29,462,104</b></u>	<b>5.81 %</b>
<b>Increase (Decrease) in net position</b>	<u><b>(3,389,420)</b></u>	<u><b>(2,158,960)</b></u>	<b>(56.99) %</b>
<b>Net Position, July 1, as previously reported</b>	<u><b>(12,463,362)</b></u>	<u><b>19,439,903</b></u>	<b>(164.11) %</b>
<b>Prior Period Adjustment</b>	<u><b>(11,796)</b></u>	<u><b>(29,744,305)</b></u>	<b>99.96 %</b>
<b>Net Position, July 1, as restated</b>	<u><b>(12,475,158)</b></u>	<u><b>(10,304,402)</b></u>	<b>(21.07) %</b>
<b>Net Position, June 30</b>	<u><u><b>\$ (15,864,578)</b></u></u>	<u><u><b>\$ (12,463,362)</b></u></u>	<b>(27.29) %</b>

### 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.

**Table 3**  
**Net Cost of Governmental Activities**

	<u>Total Expenses</u>		<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Instruction	\$ 13,316,138	\$ 13,177,455	1.05 %
Support services	9,515,191	12,124,985	(21.52) %
Non-instructional	2,067,880	2,009,788	2.89 %
Pension Expense	6,023,302	1,908,401	215.62 %
Interest on long-term liabilities	250,662	241,475	3.80 %
<b>Total expenses</b>	<b>\$ 31,173,173</b>	<b>\$ 29,462,104</b>	<b>5.81 %</b>

  

	<u>Net (Expense) Revenue</u>		<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Instruction	\$ (11,057,891)	\$ (11,402,483)	(3.02) %
Support services	(8,308,857)	(10,188,698)	(18.45) %
Non-instructional	333,596	239,473	39.30 %
Pension Expense	(6,023,302)	(1,908,401)	215.62 %
Interest on long-term liabilities	(250,662)	(241,475)	3.80 %
<b>Total net (expense) revenue</b>	<b>\$ (25,307,116)</b>	<b>\$ (23,501,584)</b>	<b>7.68 %</b>

- Net cost of governmental activities (\$25,307,116 for 2016 and \$23,501,584 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$5,679,652 for 2016 and \$5,304,461 for 2015) and state and federal revenues (\$16,149,629 for 2016 and \$15,937,199 for 2015).
- Investment earnings amounted to \$66,599 for 2016 and \$68,782 for 2015.

**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 \$6,513,612, an increase of \$348,329, which includes a prior period adjustment of \$222,069 and a decrease in inventory of \$13,918. \$2,960,098 or 45% 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 \$3,553,514 or 55% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$143,064, including a prior period adjustment of (\$61,930). The fund balance of Other Governmental Funds showed a decrease in the amount of \$261,954. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Food Service Fund	\$ 12,679
Title I-A Basic Fund	no increase or decrease
\$8,000,000 Bond Retirement Fund	265,651
QSCB Debt Retirement Fund	188,889

**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 fund(s) is provided in this report as required supplementary information.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2016, the District's total capital assets were \$32,463,177, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$150,220 from 2015. Total accumulated depreciation as of June 30, 2016, was \$13,726,873, and total depreciation expense for the year was \$969,242, resulting in total net capital assets of \$18,736,304.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 603,751	\$ 603,751	0.00 %
Buildings	11,740,446	12,121,109	(3.14) %
Building improvements	2,847,426	3,010,926	(5.43) %
Improvements other than buildings	2,169,071	2,291,383	(5.34) %
Mobile equipment	980,117	1,082,786	(9.48) %
Furniture and equipment	395,493	363,299	8.86 %
<b>Total</b>	<b>\$ 18,736,304</b>	<b>\$ 19,473,254</b>	<b>(3.78) %</b>

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

**Debt Administration.** At June 30, 2016, the District had \$8,216,306 in outstanding long-term debt, of which \$1,227,987 is due within one year. The liability for compensated absences increased \$8,927 from the prior year.

**Table 5**  
**Outstanding Long-Term Debt**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 1,730,000	\$ 2,260,000	(23.45) %
Limited obligation refunding bonds payable	860,000	1,270,000	(32.28) %
Unamortized premium	7,974	12,722	(37.32) %
Shortfall notes payable	149,298	0	N/A
Obligations under capital leases	16,868	29,808	(43.41) %
Obligations under energy efficiency leases	2,298,072	2,405,589	(4.47) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	154,094	145,167	6.15 %
<b>Total</b>	<b>\$ 8,216,306</b>	<b>\$ 9,123,286</b>	<b>(9.94) %</b>

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

## CURRENT ISSUES

The Marshall County School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years.

The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future. The District actively pursues grant funding to supplement 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 Marshall County School District, 122 South Spring Street, Holly Springs, MS 38635.

**BASIC FINANCIAL STATEMENTS**

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MARSHALL COUNTY SCHOOL DISTRICT  
Statement of Net Position  
June 30, 2016

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,420,644
Due from other governments	886,638
Other receivables, net	1,277
Inventories	27,657
Restricted assets (Note 4)	3,339,783
Non-depreciable capital assets (Note 5)	603,751
Depreciable capital assets, net (Note 5)	18,132,553
<b>Total Assets</b>	<u>25,412,303</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflow - pensions (Note 7)	5,310,049
Deferred outflows on refunding of bonds (Note 12)	27,800
<b>Total Deferred Outflows of Resources</b>	<u>5,337,849</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	162,387
Interest payable on long-term liabilities	74,353
<b>Long-term liabilities (Due within one year) (Note 6)</b>	
Capital related liabilities	980,000
Bond premium on bonds payable	3,987
Non-capital related liabilities	244,000
<b>Long-term liabilities (Due beyond one year) (Note 6)</b>	
Capital related liabilities	4,610,000
Bond premium on bonds payable	3,987
Non-capital related liabilities	2,374,332
Net pension liability (Note 7)	37,358,962
<b>Total Liabilities</b>	<u>45,812,008</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions (Note 7)	802,722
<b>Total Deferred Inflows of Resources</b>	<u>802,722</u>
<b>Net Position</b>	
Net investment in capital assets	13,166,130
Restricted net position	
Expendable	
School-based activities	1,015,901
Debt service	1,646,286
Unemployment benefits	56,254
Unrestricted	<u>(31,749,149)</u>
<b>Total Net Position</b>	<u>\$ (15,864,578)</u>

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

MARSHALL COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2016

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction	\$ 13,316,138	570,293	1,687,954	(11,057,891)
Support services	9,515,191	129,301	1,077,033	(8,308,857)
Non-instructional	2,067,880	112,678	2,288,798	333,596
Pension expense	6,023,302			(6,023,302)
Interest on long-term liabilities	250,662			(250,662)
<b>Total Governmental Activities</b>	<u>31,173,173</u>	<u>812,272</u>	<u>5,053,785</u>	<u>(25,307,116)</u>
<b>General Revenues</b>				
Taxes				
				4,805,361
				874,291
Unrestricted grants and contributions				
				15,670,150
				479,479
				66,599
				21,816
				<u>21,917,696</u>
				<u>(3,389,420)</u>
				(12,463,362)
				(11,796)
				<u>(12,475,158)</u>
				<u>\$ (15,864,578)</u>

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

MARSHALL COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2016

Exhibit C

	Major Funds						Total
	General Fund	Food Service Fund	Title I-A Basic Fund	\$8,000,000 Bond Retirement Fund	QSCB Debt Retirement Fund	Other Governmental Funds	Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 2)	\$ 2,420,644	951,090		51,347	1,132,903	947,082	5,503,066
Cash with fiscal agent (Note 2)						257,361	257,361
Due from other governments	235,266		97,647	230,822		322,903	886,638
Due from other funds (Note 3)	500,139	6,249					506,388
Inventories		27,657					27,657
<b>Total Assets</b>	<b>3,156,049</b>	<b>984,996</b>	<b>97,647</b>	<b>282,169</b>	<b>1,132,903</b>	<b>1,527,346</b>	<b>7,181,110</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable & accrued liabilities	96,297	19,454	13,783	28,169		4,684	162,387
Due to other funds (Note 3)		100,000	83,864	254,000		67,247	505,111
<b>Total Liabilities</b>	<b>96,297</b>	<b>119,454</b>	<b>97,647</b>	<b>282,169</b>	<b>0</b>	<b>71,931</b>	<b>667,498</b>
<b>Fund Balances</b>							
<b>Nonspendable</b>							
Inventory		27,657					27,657
<b>Restricted</b>							
Debt service					1,132,903	587,736	1,720,639
Unemployment benefits						56,254	56,254
Grant activities		837,885				150,359	988,244
<b>Assigned</b>							
School activities	99,654						99,654
School building improvements						661,066	661,066
<b>Unassigned</b>	<b>2,960,098</b>						<b>2,960,098</b>
<b>Total Fund Balances</b>	<b>3,059,752</b>	<b>865,542</b>	<b>0</b>	<b>0</b>	<b>1,132,903</b>	<b>1,455,415</b>	<b>6,513,612</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,156,049</b>	<b>984,996</b>	<b>97,647</b>	<b>282,169</b>	<b>1,132,903</b>	<b>1,527,346</b>	<b>7,181,110</b>

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

MARSHALL COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2016

Exhibit C-1

	<u>Amount</u>	
Total Fund Balance - Governmental Funds		\$ 6,513,612
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	603,751	
Buildings	19,375,673	
Building improvements	4,087,509	
Improvement other than buildings	3,057,799	
Mobile equipment	3,911,761	
Furniture and equipment	1,426,684	
Accumulated depreciation	<u>(13,726,873)</u>	18,736,304
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		(37,358,962)
Deferred outflows related to refunding of bonds		27,800
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pensions	5,310,049	
Deferred inflows of resources related to pensions	<u>(802,722)</u>	4,507,327
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	(1,730,000)	
Limited obligation bonds payable	(860,000)	
Unamortized premiums	(7,974)	
Qualified school construction bonds payable	(3,000,000)	
Obligations under capital lease	(16,868)	
Energy efficiency lease obligations	(2,298,072)	
Shortfall notes payable	(149,298)	
Compensated absences	(154,094)	
Accrued interest payable	<u>(74,353)</u>	<u>(8,290,659)</u>
Total Net Position - Governmental Activities		<u>\$ (15,864,578)</u>

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

MARSHALL COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016

Exhibit D

	Major Funds						Total Governmental Funds
	General Fund	Food Service Fund	Title I-A Basic Fund	\$8,000,000 Bond Retirement Fund	QSCB Debt Retirement Fund	Other Governmental Funds	
<b>Revenues</b>							
Local sources	\$ 5,544,654	121,092		564,344	11,252	317,185	6,558,527
State sources	14,733,953	20,730				1,257,639	16,012,322
Federal sources	479,479	2,222,925	1,166,017			1,322,667	5,191,088
<b>Total Revenues</b>	<b>20,758,086</b>	<b>2,364,747</b>	<b>1,166,017</b>	<b>564,344</b>	<b>11,252</b>	<b>2,897,491</b>	<b>27,761,937</b>
<b>Expenditures</b>							
Instruction	13,214,628		518,936			1,046,509	14,780,073
Support services	7,252,132	172,405	617,579			1,425,897	9,468,013
Noninstructional services	96,738	2,069,275	12,759			45,131	2,223,903
Debt service							
Principal (Note 6)	12,940			530,000		591,730	1,134,670
Interest	2,463			64,288		168,226	234,977
Other	743			1,940		22,767	25,450
<b>Total Expenditures</b>	<b>20,579,644</b>	<b>2,241,680</b>	<b>1,149,274</b>	<b>596,228</b>	<b>0</b>	<b>3,300,260</b>	<b>27,867,086</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>178,442</b>	<b>123,067</b>	<b>16,743</b>	<b>(31,884)</b>	<b>11,252</b>	<b>(402,769)</b>	<b>(105,149)</b>
<b>Other Financing Sources (Uses)</b>							
Proceeds of loans (Note 6)	206,445			17,066			223,511
Sale of transportation equipment	300						300
Operating transfers in (Note 3)	181,037				177,637	382,746	741,420
Other financing sources	21,516						21,516
Operating transfers out (Note 3)	(382,746)	(100,000)	(16,743)			(241,931)	(741,420)
<b>Total Other Financing Sources (Uses)</b>	<b>26,552</b>	<b>(100,000)</b>	<b>(16,743)</b>	<b>17,066</b>	<b>177,637</b>	<b>140,815</b>	<b>245,327</b>
<b>Net Change in Fund Balances</b>	<b>204,994</b>	<b>23,067</b>	<b>0</b>	<b>(14,818)</b>	<b>188,889</b>	<b>(261,954)</b>	<b>140,178</b>
<b>Fund Balances</b>							
July 1, 2015, as previously reported	2,916,688	852,863	0	(265,651)	944,014	1,717,369	6,165,283
Prior period adjustments (Note 8)	(61,930)	3,530		280,469			222,069
July 1, 2015, as restated	2,854,758	856,393	0	14,818	944,014	1,717,369	6,387,352
Decrease in reserve for inventory		(13,918)					(13,918)
<b>June 30, 2016</b>	<b>\$ 3,059,752</b>	<b>865,542</b>	<b>0</b>	<b>0</b>	<b>1,132,903</b>	<b>1,455,415</b>	<b>6,513,612</b>

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

MARSHALL COUNTY SCHOOL DISTRICT  
 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, 2016

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balance - Governmental Funds	\$ 140,178

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

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, those amounts are:

Capital outlay	248,415	
Depreciation expense	(969,242)	(720,827)

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 asset sold.

(5,769)

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:

Shortfall notes issued	(223,511)	
Premiums on refunding bonds issued	4,748	
Payments of debt principal	1,134,670	
Accrued interest payable	18,916	934,823

Reconciling items applicable to pension liability and related accounts:

Pension contributions made subsequent to the measurement date	2,322,221	
Pension expense for the current year	(6,023,302)	(3,701,081)

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 the governmental funds. These activities include:

Change in compensated absences	(8,927)	
Change in inventory reserve	(13,918)	
Amortization of deferred charges, premiums and discounts	(13,899)	(36,744)

Changes in Net Position of Governmental Activities	\$ (3,389,420)
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The notes to the financial statements are an integral part of this statement.

MARSHALL COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Assets and Liabilities  
June 30, 2016

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	<u>\$ 1,065,181</u>
Total Assets	<u>1,065,181</u>
Liabilities	
Accounts payable and accrued liabilities	1,030,775
Due to other funds (Note 3)	1,277
Due to student clubs	<u>33,129</u>
Total Liabilities	<u>\$ 1,065,181</u>

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

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MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

**Note 1 – Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

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

For financial reporting purposes, the 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, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in three categories:

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

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

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

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.

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

Food Service Fund - This Special Revenue Fund is used to account for the Federal funds whose use is restricted for the child nutrition program of the school district.

Title I-A Basic Fund - This Special Revenue Fund is used to account for the Federal funds whose use is restricted for services associated with educationally deprived students.

\$8,000,000 Bond Retirement Fund - This Debt Service Fund is used to account for the resources that will be used to service the debt on the general obligation bonds of the school district.

QSCB Debt Retirement Fund - This Debt Service Fund is used to account for the resources that will be used to retire the QSCB debt at such time the balloon debt payment becomes due and payable.

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 as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing - This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts - These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

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

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

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

**FIDUCIARY FUNDS**

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

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial 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.

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

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

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

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

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

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

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

**D. Encumbrances**

An encumbrance system is 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**

**I. 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.

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

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."

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking funds. Also, the resources of certain federal programs are classified as restricted since their use is limited by federal statute, rule and or regulation.

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

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

	Capitalization Policy	Estimated Useful Life
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 deferred outflows are directly related to pension reporting and refunding of debt.

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 deferred inflows are directly related to pension reporting.

See Note 1, E, 10 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Premiums

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

MARSHALL COUNTY SCHOOL DISTRICT

Notes to the Financial Statements

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

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

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

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is documented in the board minutes of the school board. Currently there is no committed fund balance for this school district.

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

*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 school board of the district has adopted a minimum fund balance policy for the General Fund that consists of 7% of total district revenues.

**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 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$5,503,066 and \$1,065,181, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$2,420,644.

**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. 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. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the

MARSHALL COUNTY SCHOOL DISTRICT  
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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 \$257,361.

**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	Major fund - Food service fund	\$ 100,000
	Major fund - Title I basic fund	83,864
	Major fund - \$8 bond million retirement fund	254,000
	Other governmental funds	60,998
	Fiduciary funds	1,277
Major fund - Food service fund	Other governmental funds	6,249
Total		<u>\$ 506,388</u>

The purpose of the inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments. The inter-fund loan associated with the \$8 Million Retirement Fund was to provide funding for the servicing of debt.

**B. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 382,746
Major fund - Food service fund	General Fund	100,000
Major fund - Title I basic fund	General Fund	16,743
Other governmental funds	General Fund	64,294
	Major fund - QSCB debt retirement fund	177,637
Total		<u>\$ 741,420</u>

The transfer out of the General Fund was for the purpose of funding the vocational program, unemployment compensation and construction fund in the Other Governmental Funds. The transfer from the Food Service fund was for indirect cost. The transfer from the Other Governmental Funds was to provide funding for the servicing of debt of the QSCB Retirement Fund.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance and cash with fiscal agent balance, totaling \$ 3,082,422 and \$257,361, respectively, of various special revenue funds and debt service funds which are legally restricted and may not be used for purposes that support the district's programs.

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

**Note 5 – Capital Assets**

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

	Balance 7/1/2015	Increases	Decreases	Adjustments	Balance 6/30/2016
<b>Governmental Activities:</b>					
<u>Non-depreciable capital assets:</u>					
Land	\$ 603,751				603,751
Total non-depreciable capital assets	<u>603,751</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>603,751</u>
<u>Depreciable capital assets:</u>					
Buildings	19,375,673				19,375,673
Building improvements	4,087,509				4,087,509
Improvements other than buildings	3,057,799				3,057,799
Mobile equipment	3,862,061	92,500	(42,800)		3,911,761
Furniture and equipment	1,326,164	155,915	(55,395)		1,426,684
Total depreciable capital assets	<u>31,709,206</u>	<u>248,415</u>	<u>(98,195)</u>	<u>0</u>	<u>31,859,426</u>
<u>Less accumulated depreciation for:</u>					
Buildings	7,254,564	380,663			7,635,227
Building improvements	1,076,583	163,500			1,240,083
Improvements other than buildings	766,416	122,312			888,728
Mobile equipment	2,779,275	180,535	(38,520)	10,354	2,931,644
Furniture and equipment	962,865	122,232	(53,906)		1,031,191
Total accumulated depreciation	<u>12,839,703</u>	<u>969,242</u>	<u>(92,426)</u>	<u>10,354</u>	<u>13,726,873</u>
Total depreciable capital assets, net	<u>18,869,503</u>	<u>(720,827)</u>	<u>(5,769)</u>	<u>(10,354)</u>	<u>18,132,553</u>
Governmental activities capital assets, net	<u>\$ 19,473,254</u>	<u>(720,827)</u>	<u>(5,769)</u>	<u>(10,354)</u>	<u>18,736,304</u>

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 30,313
Support services	876,648
Non-instructional	62,281
Total depreciation expense - Governmental activities	<u>\$ 969,242</u>

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Notes to the Financial Statements  
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**Note 6 – Long-term Liabilities**

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. General obligation bonds payable	\$ 2,260,000		530,000	1,730,000	555,000
B. Limited obligation bonds payable	1,270,000		410,000	860,000	425,000
Premiums	12,722		4,748	7,974	3,987
C. Shortfall notes payable	0	223,511	74,213	149,298	73,909
D. Obligations under capital leases	29,808		12,940	16,868	14,333
E. Obligations under energy efficiency leases	2,405,589		107,517	2,298,072	143,430
F. Qualified school construction bonds payable	3,000,000			3,000,000	0
G. Compensated absences payable	145,167	8,927		154,094	12,328
<b>Total</b>	<b>\$ 9,123,286</b>	<b>232,438</b>	<b>1,139,418</b>	<b>8,216,306</b>	<b>1,227,987</b>

**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
General obligation bonds, series 2010	2.0-3.5	12/1/2010	2/1/2019	\$ 4,310,000	1,730,000

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 555,000	56,337	611,337
2018	575,000	39,687	614,687
2019	600,000	21,000	621,000
<b>Total</b>	<b>\$ 1,730,000</b>	<b>117,024</b>	<b>1,847,024</b>

This debt will be retired from the \$8,000,000 Bond Retirement Fund (Debt Service Fund).

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, 2016, the amount of outstanding bonded indebtedness was equal to 4.6% of property assessments as of October 1, 2015.

**B. Limited obligation refunding bonds payable**

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

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Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding bonds	2.0-3.0	6/2/2009	12/1/2017	\$ 3,480,000	860,000

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 425,000	19,425	444,425
2018	435,000	6,525	441,525
Total	\$ 860,000	25,950	885,950

This debt will be retired from the MAEP Debt Service Fund (Debt Service 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.

**C. Shortfall notes payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes, 2015	2.0	8/25/2015	4/1/2018	\$ 223,511	149,298

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 73,909	2,986	76,895
2018	75,389	1,508	76,897
Total	\$ 149,298	4,494	153,792

This debt will be retired from the Shortfall Retirement Fund (Debt Service Fund).

**D. Obligations under capital leases**

The school district has entered into a lease agreement as lessee for financing the acquisition of surveillance cameras at a cost of \$49,899. This lease qualifies as a capital lease for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Obligation under capital lease	10.27	7/29/2013	8/31/2017	\$ 49,899	16,868

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2017	\$ 14,333	1,070	15,403
2018	2,535	32	2,567
Total	<u>\$ 16,868</u>	<u>1,102</u>	<u>17,970</u>

This debt will be retired from the General Fund.

**E. Obligations under energy efficiency leases**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Obligations under energy efficiency lease	2.66	11/14/2014	11/14/2029	<u>\$ 2,405,589</u>	<u>2,298,072</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 143,430	60,481	203,911
2018	147,289	56,622	203,911
2019	151,253	52,658	203,911
2020	155,324	48,587	203,911
2021	159,504	44,407	203,911
2022 – 2026	864,262	155,293	1,019,555
2027 – 2030	677,010	36,678	713,688
Total	<u>\$ 2,298,072</u>	<u>454,726</u>	<u>2,752,798</u>

This debt will be retired from the Schneider Electric Energy Efficiency Note Fund (Debt Service Fund).

**F. Qualified school construction bonds payable**

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds	1.24	12/15/2009	12/15/2025	<u>\$ 3,000,000</u>	<u>3,000,000</u>

MARSHALL COUNTY SCHOOL DISTRICT  
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Year Ending June 30	Principal	Interest	Total
2017	\$	37,200	37,200
2018		37,200	37,200
2019		37,200	37,200
2020		37,200	37,200
2021		37,200	37,200
2022 – 2026	3,000,000	18,600	3,018,600
Total	\$ 3,000,000	204,600	3,204,600

This debt will be retired from the QSCB Debt Retirement Fund (Debt Service Fund).

**G. Compensated absences payable**

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

**Note 7 – Defined Benefit Pension Plan**

**General Information about the Pension Plan**

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

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

*Contributions.* PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$2,322,221, \$2,378,059 and \$2,247,888, respectively, which equaled the required contributions for each year.

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

At June 30, 2016, the school district reported a liability of \$37,358,962 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was .241680 percent, which was based on a measurement date of June 30, 2015. This was an increase of .00811 from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

The effect of the school district's change in its proportionate share of the net pension liability from June 30, 2014 to June 30, 2015, resulted in the school district recording additional deferred outflows and a corresponding increase in net pension liability of \$1,571,460. The amortization of the additional deferred outflow over the service life resulted in reduction in deferred outflows and increase in pension expense of \$415,730 for the current year.

For the year ended June 30, 2016, the District recognized pension expense of \$6,023,302. At June 30, 2016 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	\$ 634,628	\$ 0
Net difference between projected and actual earnings on pension plan investments	0	802,722
Changes of assumptions	2,353,199	0
Changes in proportion and differences between District contributions and proportionate share of Contributions	0	0
District contributions subsequent to the measurement date	2,322,221	0
Total	<u>\$ 5,310,049</u>	<u>\$ 802,722</u>

\$2,322,221 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:	
2017	\$ 897,786
2018	897,786
2019	590,215
2020	(200,680)

*Actuarial assumptions.* The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
June 30, 2016

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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>	<u>%</u>		

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. 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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 49,242,534	\$ 37,358,962	\$ 27,497,819

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

**Note 8 – Prior Period Adjustments**

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

**Exhibit B - Statement of Activities**

<u>Explanation</u>	<u>Amount</u>
1. Restatement of a prior year asset/liability	\$ 222,069
2. Adjustment to capital assets	(10,354)
3. Restatement of a prior year asset	(223,511)
Total	<u>\$ (11,796)</u>

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Financial Statements  
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Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	Restatement of prior year asset	\$ (61,930)
Major Fund - Food Service Fund	Restatement of prior year liability	3,530
Major Fund - \$8,000,000 Bond Retirement Fund	Restatement of prior year liability	280,469
Total		<u>\$ 222,069</u>

**Note 9 – Contingencies**

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

**Note 10 – Risk Management**

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 11 – 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.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2016 was \$1,132,903. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2017	\$ 187,500
2018	187,500
2019	187,500
2020	187,500
2021	187,500
2022 – 2026	937,500
Total	<u>\$ 1,875,000</u>

**Note 12 – Effect of Deferred Amounts on Net Position**

The net investment in capital assets of \$13,138,330 includes the effect of a deferred outflow that resulted from refunding of debt in a prior year. The \$27,800 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenditures and decrease the net investment in capital assets over the next two years.

MARSHALL COUNTY SCHOOL DISTRICT  
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The unrestricted net position amount of \$(31,721,349) includes the effect of deferring the recognition of expenses and revenue associated with the net pension liability and related account balances.

**Note 13 - 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 School District evaluated the activity of the district through October 25, 2016, the date the financial statements were available to be issued, and determined that the no subsequent events have occurred that require disclosure in the notes to the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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MARSHALL COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues				
Local sources	\$ 5,329,402	5,544,654	5,544,654	215,252	0
State sources	14,733,868	14,733,953	14,733,953	85	0
Federal sources	297,000	244,606	479,479	(52,394)	234,873
Total Revenues	<u>20,360,270</u>	<u>20,523,213</u>	<u>20,758,086</u>	<u>162,943</u>	<u>234,873</u>
Expenditures					
Instruction	13,902,009	13,214,628	13,214,628	687,381	0
Support services	8,019,121	7,014,336	7,252,132	1,004,785	(237,796)
Noninstructional services	83,062	99,738	96,738	(16,676)	3,000
Facilities acquisition and construction	0	29,223	0	(29,223)	29,223
Debt service					
Principal	0	12,940	12,940	(12,940)	0
Interest	0	2,463	2,463	(2,463)	0
Other	0	743	743	(743)	0
Total Expenditures	<u>22,004,192</u>	<u>20,374,071</u>	<u>20,579,644</u>	<u>1,630,121</u>	<u>(205,573)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,643,922)</u>	<u>149,142</u>	<u>178,442</u>	<u>1,793,064</u>	<u>29,300</u>
Other Financing Sources (Uses)					
Proceeds of loans	0	206,445	206,445	206,445	0
Sale of transportation equipment	5,000	300	300	(4,700)	0
Operating transfers in	127,979	116,885	181,037	(11,094)	64,152
Other financing sources	0	21,516	21,516	21,516	0
Operating transfers out	(23,000)	(435,175)	(382,746)	(412,175)	52,429
Total Other Financing Sources (Uses)	<u>109,979</u>	<u>(90,029)</u>	<u>26,552</u>	<u>(200,008)</u>	<u>116,581</u>
Net Change in Fund Balances			<u>204,994</u>		
Fund Balances					
July 1, 2015, as previously reported			2,916,688		
Prior period adjustments			(61,930)		
July 1, 2015, as restated			<u>2,854,758</u>		
June 30, 2016			<u>\$ 3,059,752</u>		

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

MARSHALL COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Food Service Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues</b>					
Local sources	\$ 282,000	121,092	121,092	(160,908)	0
State sources	25,000	20,730	20,730	(4,270)	0
Federal sources	1,939,900	2,222,925	2,222,925	283,025	0
<b>Total Revenues</b>	<u>2,246,900</u>	<u>2,364,747</u>	<u>2,364,747</u>	<u>117,847</u>	<u>0</u>
<b>Expenditures</b>					
Support services	207,000	172,405	172,405	34,595	0
Noninstructional services	1,942,500	2,069,275	2,069,275	(126,775)	0
<b>Total Expenditures</b>	<u>2,149,500</u>	<u>2,241,680</u>	<u>2,241,680</u>	<u>(92,180)</u>	<u>0</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>97,400</u>	<u>123,067</u>	<u>123,067</u>	<u>25,667</u>	<u>0</u>
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	3,000	100,000	0	97,000	(100,000)
Operating transfers out	(100,000)	(83,420)	(100,000)	16,580	(16,580)
<b>Total Other Financing Sources (Uses)</b>	<u>(97,000)</u>	<u>16,580</u>	<u>(100,000)</u>	<u>113,580</u>	<u>(116,580)</u>
<b>Net Change in Fund Balances</b>			<u>23,067</u>		
<b>Fund Balances</b>					
July 1, 2015			852,863		
Prior period adjustments			3,530		
July 1, 2015, as restated			<u>856,393</u>		
Decrease in reserve for inventory			<u>(13,918)</u>		
June 30, 2016			<u>\$ 865,542</u>		

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

MARSHALL COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I-A Basic Fund  
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	\$ 1,207,151	1,166,017	1,166,017	(41,134)	0
Total Revenues	<u>1,207,151</u>	<u>1,166,017</u>	<u>1,166,017</u>	<u>(41,134)</u>	<u>0</u>
Expenditures					
Instruction	590,394	518,936	518,936	71,458	0
Support services	586,706	617,579	617,579	(30,873)	0
Noninstructional services	12,072	12,759	12,759	(687)	0
Total Expenditures	<u>1,189,172</u>	<u>1,149,274</u>	<u>1,149,274</u>	<u>39,898</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>17,979</u>	<u>16,743</u>	<u>16,743</u>	<u>(1,236)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(17,979)	(16,743)	(16,743)	1,236	0
Total Other Financing Sources (Uses)	<u>(17,979)</u>	<u>(16,743)</u>	<u>(16,743)</u>	<u>1,236</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2015			<u>0</u>		
June 30, 2016			<u>\$ 0</u>		

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

**MARSHALL COUNTY SCHOOL DISTRICT**  
 Schedule of the District's Proportionate Share of the Net Pension Liability  
 PERS  
 Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.24168%	0.23%
District's proportionate share of the net pension liability (asset)	<u>\$ 37,358,962</u>	<u>\$ 27,917,789</u>
District's covered-employee payroll	<u>\$ 15,098,787</u>	<u>\$ 14,272,301</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>247.43%</u>	<u>195.61%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.70%</u>	<u>67.21%</u>

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.

MARSHALL COUNTY SCHOOL DISTRICT  
 Schedule of District Contributions  
 PERS  
 Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,322,221	\$ 2,378,059
Contributions in relation to the contractually required contribution	2,322,221	2,378,059
Contribution deficiency (excess)	<u>0</u>	<u>0</u>
District's covered-employee payroll	\$ 14,744,248	\$ 15,098,787
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

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

MARSHALL COUNTY SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2016

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15 following the end of the fiscal year. A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States of America.

(3) Pension Schedules

Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

**SUPPLEMENTARY INFORMATION**

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MARSHALL COUNTY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

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	\$ 744,310
National school lunch program	10.555	1,597,360
Total child nutrition cluster		<u>2,341,670</u>
Fresh fruits and vegetable program	10.582	45,131
Total U.S. Department of Agriculture		<u>2,386,801</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.xxx	234,873
Total Federal Communications Commission		<u>234,873</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,166,017
Career and technical education - basic grants to states	84.048	46,497
Rural education	84.358	55,044
English language acquisition grants	84.365	37,697
Improving teacher quality - state grants	84.367	216,551
School improvement grants	84.377	96,458
Total		<u>1,618,264</u>
Special education cluster:		
Special education - grants to states	84.027	799,298
Special education - preschool grants	84.173	14,783
Total special education cluster		<u>814,081</u>
Total passed-through Mississippi Department of Education		<u>2,432,345</u>
Total U.S. Department of Education		<u>2,432,345</u>
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	13,140
Total U.S. Department of Health and Human Services		<u>13,140</u>
Total for All Federal Awards		<u>\$ 5,067,159</u>

MARSHALL COUNTY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

NOTES TO SCHEDULE

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

MARSHALL COUNTY SCHOOL DISTRICT  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2016

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 20,258,904	15,129,632	1,068,010	1,443,175	2,618,087
Other	7,608,182	2,222,751	499,211	79,672	4,806,548
Total	<u>27,867,086</u>	<u>17,352,383</u>	<u>1,567,221</u>	<u>1,522,847</u>	<u>7,424,635</u>
Total number of students	<u>3,177</u>				
Cost per student	<u>\$ 8,771</u>	<u>5,462</u>	<u>493</u>	<u>479</u>	<u>2,337</u>

Notes to the schedule.

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.

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

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OTHER INFORMATION

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MARSHALL COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
General Fund  
Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
<b>Revenues</b>				
Local sources	\$ 5,544,654	4,938,778	4,923,321	4,883,559
State sources	14,733,953	14,870,310	14,414,386	13,690,386
Federal sources	479,479	349,224	192,457	195,730
<b>Total Revenues</b>	<b>20,758,086</b>	<b>20,158,312</b>	<b>19,530,164</b>	<b>18,769,675</b>
<b>Expenditures</b>				
Instruction	13,214,628	13,107,826	12,789,152	12,524,095
Support services	7,252,132	8,304,434	8,210,670	7,575,339
Noninstructional services	96,738	134,887	74,085	87,419
Facilities acquisition and construction	0	26,950	0	26,684
Debt service				
Principal	12,940	11,683	8,408	0
Interest	2,463	3,721	4,428	0
Other	743	0	0	0
<b>Total Expenditures</b>	<b>20,579,644</b>	<b>21,589,501</b>	<b>21,086,743</b>	<b>20,213,537</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>178,442</b>	<b>(1,431,189)</b>	<b>(1,556,579)</b>	<b>(1,443,862)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds of loans	206,445	0	0	0
Sale of transportation equipment	300	4,200	5,323	0
Operating transfers in	181,037	297,338	1,989,974	448,182
Other financing sources	21,516	0	0	0
Operating transfers out	(382,746)	(78,333)	(15,511)	0
<b>Total Other Financing Sources (Uses)</b>	<b>26,552</b>	<b>223,205</b>	<b>1,979,786</b>	<b>448,182</b>
<b>Net Change in Fund Balances</b>	<b>204,994</b>	<b>(1,207,984)</b>	<b>423,207</b>	<b>(995,680)</b>
<b>Fund Balances</b>				
July 1, as previously reported	2,916,688	3,848,162	3,387,689	4,383,369
Prior period adjustments	(61,930)	276,510	37,266	0
<b>July 1, as restated</b>	<b>2,854,758</b>	<b>4,124,672</b>	<b>3,424,955</b>	<b>4,383,369</b>
<b>June 30</b>	<b>\$ 3,059,752</b>	<b>2,916,688</b>	<b>3,848,162</b>	<b>3,387,689</b>

\* Source - Prior year audit reports.

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

UNAUDITED

	2016	2015*	2014*	2013*
<b>Revenues</b>				
Local sources	\$ 6,558,527	5,897,136	5,929,765	5,842,005
State sources	16,012,322	16,084,378	15,666,810	14,903,314
Federal sources	5,191,088	5,098,118	4,669,891	4,698,395
<b>Total Revenues</b>	<u>27,761,937</u>	<u>27,079,632</u>	<u>26,266,466</u>	<u>25,443,714</u>
<b>Expenditures</b>				
Instruction	14,780,073	14,700,412	14,247,272	14,071,120
Support services	9,468,013	12,109,659	9,887,397	9,186,793
Noninstructional services	2,223,903	2,127,143	2,055,971	1,972,959
Facilities acquisition and construction	0	30,917	267,930	690,776
Debt service				
Principal	1,134,670	921,683	903,408	865,000
Interest	234,977	163,621	187,591	203,649
Other	25,450	34,595	2,939	2,940
<b>Total Expenditures</b>	<u>27,867,086</u>	<u>30,088,030</u>	<u>27,552,508</u>	<u>26,993,237</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(105,149)</u>	<u>(3,008,398)</u>	<u>(1,286,042)</u>	<u>(1,549,523)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of general obligation bonds	0	2,405,589	0	0
Proceeds of loans	223,511	0	0	0
Sale of transportation equipment	300	4,200	5,323	0
Operating transfers in	741,420	559,985	2,189,119	957,275
Other financing sources	21,516	0	0	0
Operating transfers out	(741,420)	(559,985)	(2,189,119)	(957,275)
<b>Total Other Financing Sources (Uses)</b>	<u>245,327</u>	<u>2,409,789</u>	<u>5,323</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	<u>140,178</u>	<u>(598,609)</u>	<u>(1,280,719)</u>	<u>(1,549,523)</u>
<b>Fund Balances</b>				
July 1, as previously reported	6,165,283	6,877,814	8,124,103	9,666,890
Prior period adjustments	222,069	(123,538)	37,266	0
July 1, as restated	<u>6,387,352</u>	<u>6,754,276</u>	<u>8,161,369</u>	<u>9,666,890</u>
Increase (Decrease) in reserve for inventory	(13,918)	9,616	(2,836)	6,736
June 30	<u>\$ 6,513,612</u>	<u>6,165,283</u>	<u>6,877,814</u>	<u>8,124,103</u>

\* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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# CHARLES L. SHIVERS, CPA, LLC

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### Independent Auditor's Report

Superintendent and School Board  
Marshall County School District

I 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 Marshall County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Marshall County School District's basic financial statements, and have issued my report thereon dated October 25, 2016.

### **Internal Control Over Financial Reporting**

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be significant deficiencies. [2016-001, 2016-002, 2016-003 and 2016-004].

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Marshall County School District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Marshall County School District's Response to Findings**

Marshall County School District's response to the findings identified in my audit are described in the accompanying Auditee's Corrective Action Plan. Marshall County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Charles L Shivers, CPA, LLC*

Ridgeland, MS  
October 25, 2016

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Superintendent and School Board  
Marshall County School District

#### **Report on Compliance for Each Major Federal Program**

I have audited Marshall County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Marshall County School District's major federal programs for the year ended June 30, 2016. Marshall County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of Marshall County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I 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 Marshall County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In my opinion, Marshall County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

#### **Report on Internal Control Over Compliance**

Management of Marshall County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of

compliance, I considered Marshall County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Marshall County School District's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items [2016-005 and 2016-006], that I consider to be significant deficiencies.

Marshall County School District's response to the internal control over compliance findings identified in my audit are described in the accompanying Auditee's Corrective Action Plan. Marshall County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Charles L Shivers, CPA, LLC*

Ridgeland, MS  
October 25, 2016

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

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# CHARLES L. SHIVERS, CPA, LLC

*Certified Public Accountant*

Post Office Box 2775  
Ridgeland, Mississippi 39158

Phone: 601.941.6649  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
Marshall County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2016, which collectively comprise Marshall County School District's basic financial statements and have issued my report thereon dated October 25, 2016. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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 my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. My finding and recommendation and Marshall County School District's response are as follows:

**CONDITION:** The school district employed the services of a Public Employees Retirement System (PERS) retiree as an independent contractor without first seeking the approval of PERS as to whether or not the individual met the qualification of an independent contractor.

**CRITERIA:** Section 25-11-127, Mississippi Code of 1972 addresses the reemployment of PERS retirees by an entity covered under the PERS System. If the retiree is to be reemployed as an independent contractor, the PERS form "Employee vs. Independent Contractor Form" must be completed and submitted to PERS for a determination that the individual meets the independent contractor status.

CAUSE OF CONDITION: The cause of this condition is a failure to follow PERS rules and regulations.

EFFECT OF CONDITION: This condition could lead to payments to PERS retirees for which they would not be entitled under PERS rules and regulations.

RECOMMENDATION: It is recommended that when considering the reemployed of PERS retirees as an independent contractor, the school district ensure the PERS form "Employee vs. Independent Contractor Form" be completed and submitted to PERS for a determination that the individual meets the independent contractor status.

SCHOOL DISTRICT RESPONSE: In the future when the school considers employing a PERS retiree as an independent contractor position, the district will ensure that the PERS retiree completes the forms necessary to meet the independent contractor status.

CONDITION: Section 37-7-333, Mississippi Code 1972, requires the school board to advertise for and accept bids for depositories (banks) for the deposit of school district funds.

CRITERIA: The school district was utilizing two depositories (banks) that had not been approved by the school board for school district depositories.

CAUSE OF CONDITION: The cause of the condition is an error or oversight on the part of the school board.

EFFECT OF CONDITION: The effect of this condition resulted in non-compliance with state laws.

RECOMMENDATION: It is recommended that the district only use depositories (banks) that have been selected by the school board after having been properly advertised.

SCHOOL DISTRICT RESPONSE: The district will only use depositories that have been selected by the school board. The board minutes for October 25, 2016 will show that the two banks used for school depositories are properly approved.

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

The Marshall County School District's response to the findings included in this report were not audited and, accordingly, I express no opinion on them.

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

*Charles L Shivers, CPA, LLC*

Ridgeland, MS  
October 25, 2016

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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MARSHALL COUNTY SCHOOL DISTRICT  
 Schedule of Findings and Questioned Costs  
 June 30, 2016

Section I: Summary of Auditor's Results

**Financial Statements:**

- |    |   |            |
|----|---|------------|
| 1. | Type of auditor's report issued on the basic financial statements:                      | Unmodified |
| 2. | Noncompliance material to the basic financial statements noted?                         | No         |
| 3. | Internal control over financial reporting:  |            |
|    | a. Material weaknesses identified?  | No         |
|    | b. Significant deficiency identified that are not considered to be material weaknesses? | Yes        |

**Federal Awards:**

- |     |  |            |
|-----|--|------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:  | Unmodified |
| 5.  | Internal control over major programs:  |            |
|     | a. Material weaknesses identified?   | No         |
|     | b. Significant deficiency identified that are not considered to be material weaknesses?  | Yes        |
| 6.  | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   | Yes        |
| 7.  | Federal program identified as major program:   |            |
|     | a. Child nutrition cluster   |            |
|     | CFDA #: 10.553   |            |
|     | CFDA #: 10.555   |            |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$750,000  |
| 9.  | Auditee qualified as a low-risk auditee?   | Yes        |
| 10. | Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No         |

Section II: Financial Statement Findings

Significant deficiencies identified that are not considered to be material weaknesses.

Finding 2016-001

**CONDITION:** The business manager initiates, prepares, approves and enters all journal entries to correct, post, or otherwise cause the proper statement of the account balances and/or classes of transactions. The business manager also reconciles the district's bank accounts, has unlimited access to blank checks and has signature authority on the bank accounts.

**CRITERIA:** An appropriately and properly designed internal accounting controls would have these duties segregated to the greatest extent possible.

**CAUSE OF CONDITION:** The cause of this condition is an inadequately designed system of accounting controls due to limited staffing.

**EFFECT OF CONDITION:** This condition could lead to errors being made and those errors not being prevented or detected.

**RECOMMENDATION:** It is recommended that the duties of the business manager relating to journal entries and bank account reconciliations be segregated to the greatest extent possible.

MARSHALL COUNTY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
June 30, 2016

Finding 2016-002

CONDITION: The payroll clerk performs all aspects of the payroll process, i.e., enters data into the accounting system, processes monthly payroll, prepares the direct deposit and reviews monthly reports.

CRITERIA: A well designed system of accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: The cause of this condition is an inadequately designed system of accounting controls.

EFFECT OF CONDITION: This condition could result in errors or misappropriation of district assets and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the business manager review a payroll exception report on a monthly basis and make appropriate inquiries about noted variances.

Finding 2016-003

CONDITION: A high school bookkeeper performed all duties regarding the receipt of activity funds (received the funds, entered data onto the transmittal report, prepared the deposit slip and made the deposit).

CRITERIA: A well designed system of accounting controls for the receipt of activity funds would be such that no one individual performs all aspects of the transaction from beginning to end.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This situation could result in errors occurring in receipt of activity fund transactions (posting, deposits, etc.) and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the duties of receipting activity funds be segregated to the greatest extent possible such that no one individual performs all aspects of the transaction from beginning to end.

Finding 2016-004

CONDITION: There is a lack of segregation of duties with activity fund expenditures. The school principal acts in the capacity of purchase agent and ultimately approves paying for the purchase (signs the check).

CRITERIA: A well designed system of accounting controls for the disbursement of activity funds would be such that no one individual performs incompatible duties.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This situation could result in errors occurring in the disbursement of activity fund transactions and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the disbursement of activity funds be segregated to the greatest extent possible such that no one individual performs too many incompatible duties or the district should consider centralizing the expenditure of activity funds.

Section III: Federal Award Findings and Questioned Costs

Significant deficiencies identified that are not considered to be material weaknesses.

Finding 2016-005

Program CFDA No.: 84.010                      CFDA program title: Title I – grants to local educational agencies  
84.367    Improving teacher quality – state grants

Compliance Requirement Allowable Cost, Cost Principles, Supplement not Supplant

CONDITION: The school board employed the services of an individual “as principal in charge of instruction and operations for Byhalia High School at a salary of \$88,000 paid with district and Federal funds.” The accounting records indicate the individual was actually paid as an independent contractor rather than a salaried employee as suggested by the actions of the school board. Total payments made to the independent contractor totaled \$61,463. The services were paid from local funds (\$17,463), Title I (\$21,917) and Improving Teacher Quality (\$22,083). The fourteen (14) invoices submitted by the independent contractor did not provide sufficient detail to support the services provided and are thus not considered to be allowable as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for*

MARSHALL COUNTY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
June 30, 2016

*Federal Awards (Uniform Guidance).* In addition, the services were initially paid with local funds and then a combination of both federal funds and local funds thereafter. Such payment structure suggests a supplanting of local funds in violation of the Uniform Guidance.

**CRITERIA:** Invoices paid with federal funds must provide sufficient detail to substantiate the services performed, without supplanting local funds in this particular instance, as required by the Uniform Guidance.

**EFFECT OF CONDITION:** The effect of the condition is an accounting control deficiency that results in questioned cost.

**QUESTIONED COST:** Questioned cost: Title I of \$21,917 and Improving Teacher Quality of \$22,083.

**CAUSE OF CONDITION:** The cause of the condition is a lack of communication between the school board and the superintendent regarding the employment status of the individual (employee or independent contractor), a lack of understanding of the proper use of Federal Program funds and a failure to have sufficient documented invoices to support the services provided as required by the Uniform Guidance.

**RECOMMENDATION:** It is recommended that the employment status of individuals be that as approved by the school board as noted in the board minutes. In addition, invoices submitted by the independent contractor must provide sufficient detail to support the services provided and be paid without supplanting local funds.

Finding 2016-006

Program CFDA No.:	84.010	CFDA program title:	Title I – grants to local educational agencies
	84.367		Improving teacher quality – state grants
	10.553		School breakfast program
	10.555		National school lunch program

Compliance Requirement – Procurement, Suspension and Debarment

**CONDITION:** The school district failed to maintain documentation to show that competitive purchasing requirements were met in nine (9) instances of program expenditures.

**CRITERIA:** The federal Office of Management and Budget sets forth uniform guidance for the administration of federal grant awards. The district is charged with the responsibility of designing and implementing a set of internal controls to ensure compliance with competitive purchasing requirements of the grant award. For all purchases of goods and services exceeding the micro-purchase threshold amount of \$3,500, the district must show that competitiveness was introduced into the purchasing process through quotes or formal bid process. There are three tiers of guidance relating to procurement and the requirement that competitiveness be introduced into the purchasing process. “For small purchase procedures” of purchase between \$3,500 and \$150,000, nonfederal entities are allowed to follow procedures that are relatively simple and informal. However, price and rate quotations must be obtained from an adequate number of qualified sources for purchases falling within this range. The discretion of determining the adequate number of qualified sources is left to the nonfederal entity. Purchases over \$150,000 are considered large purchases that require a sealed bid process. Currently our state purchasing laws are not aligned directly with federal guidance. However, recipients of federal grants are expected to meet the requirements of federal guidance. This includes the retention of documents to substantiate compliance with competitive purchasing requirements.

**EFFECT OF CONDITION:** The failure to maintain documentation means the district cannot substantiate compliance with the grant award’s competitive purchasing requirements.

**CAUSE OF CONDITION:** The district failed to implement a sound system of internal controls surrounding competitive purchasing.

**RECOMMENDATION:** It is recommended that the district begin immediate steps to enforce the guidelines and enforce existing written requirements that require competitive purchasing practices on all orders exceeding the micro-purchase threshold of \$3,500 for commodities and services.

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**AUDITEE'S CORRECTIVE ACTION PLAN**

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*Marshall County School District  
122 South Spring Street  
Holly Springs, MS 38635  
662-252-4271*

*Dr. Carrie Skelton, Interim Superintendent*

*Gary Hannah, Deputy Superintendent*

### Corrective Action Plan

October 24, 2016

As required by Section 315(c) of OMB Circular A-133, the Marshall County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

#### Finding 2016-001

##### Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: Bank reconciliations will be performed by a third party with no direct affiliation with the business office.
- c. Anticipated completion date of corrective action: November, 2016

#### Finding 2016-002

##### Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: Business manager will review a payroll exception report on a monthly basis.
- c. Anticipated completion date of corrective action: November, 2016

#### Finding 2016-003

##### Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: Duties of receipting activity funds will be segregated so that no one person performs all of the transactions from beginning to end.
- c. Anticipated completion date of corrective action: January, 2017

Finding 2016-004

Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: The district will centralize the expenditure of activity funds at the schools ensuring that one person is not performing too many incompatible duties.
- c. Anticipated completion date of corrective action: January, 2017

Finding 2016-005

Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: Employment status of individuals will be as that is approved by the school board with invoices submitted by the independent contractor providing sufficient documentation detailing the support services provided and without supplanting federal funds.
- c. Anticipated completion date of corrective action: November, 2016

Finding 2016-006

Corrective Action Plan

- a. Contact person responsible for corrective action: Superintendent
- b. Description of correction action to be taken: Enforcement of guidelines and written requirements that require competitive purchasing practices on all orders exceeding the micro-purchase threshold of \$3,500 for commodities and services.
- c. Anticipated completion date of corrective action: November, 2016

Sincerely,



Interim Superintendent of Education