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**Holmes County Consolidated School District**

Unaudited Financial Statements  
For the Year Ended June 30, 2019

**Fortenberry & Ballard, PC**  
Certified Public Accountants

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## FINANCIAL AUDIT REPORT



FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION

Superintendent and School Board  
Holmes County Consolidated School District

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County Consolidated School District as of and for the year ended June 30, 2019, and the related notes to the financial statements. These financial statements collectively comprise the Holmes County Consolidated School District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinions on Governmental Activities, Each Major Fund, and Aggregate Remaining Fund Information - Basis for Disclaimer - Unaudited Entity and Funds" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Disclaimer
General Fund	Disclaimer
2017 Storm Damage Fund	Disclaimer
Aggregate Remaining Fund Information	Disclaimer

### **Basis for Disclaimer of Opinions on Governmental Activities, Each Major Fund, and Aggregate Remaining Fund Information - Basis for Disclaimer - Unaudited Entity and Funds**

#### *Basis for Disclaimer - Unaudited Entity and Funds*

The Holmes County Consolidated School District does not maintain adequate and complete accounting records to provide sufficient information for the fair presentation of the basic financial statements. Since the school district does not have adequate and complete records we were not able to apply other auditing procedures to satisfy ourselves as to the fair presentation of the financial statements.

### **Disclaimer of Opinions**

Because of the significance of the matters described in the “Basis for Disclaimer of Opinions on Governmental Activities, Each Major Fund, and Aggregate Remaining Fund Information - Basis for Disclaimer - Unaudited Entity and Funds” paragraph above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, each Major Fund, and aggregate Remaining Fund Information. Accordingly, we do not express an opinion on these financial statements.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the Schedule of the District’s Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions (PERS), the Schedule of the District’s Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) on pages 36 - 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We were unable to apply certain limited procedures to the budgetary comparison information, the Schedule of the District’s Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions, Schedule of the District’s Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) in accordance with auditing standards

generally accepted in the United States of America. Due to the matters described in the “Basis for Disclaimer of Opinions on Governmental Activities, Each Major Fund, and Aggregate Remaining Fund Information - Basis for Disclaimer - Unaudited Entity and Funds” paragraphs we were not able to audit the information and we do not express an opinion or provide any assurance on the information.

### **Omission of Required Supplementary Information**

Holmes County Consolidated School District’s, has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

### *Other Information*

We were engaged to conduct our audit for the purpose of forming opinions on the financial statements that collectively comprise the Holmes County Consolidated 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 not been subjected to the auditing procedures that would have 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. Because of the significance of the matters described above in the “Basis for Disclaimer of Opinions on Governmental Activities, Each Major Fund, and Aggregate Remaining Fund Information - Basis for Disclaimer - Unaudited Entity and Funds” paragraphs, we were not able to audit the basic financial statements. Therefore, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

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 that would have been applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, on our consideration of the Holmes County Consolidated School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Holmes County Consolidated School District's 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 Holmes County Consolidated School District's internal control over financial reporting and compliance.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
March 17, 2021

Certified Public Accountants

UNAUDITED

## FINANCIAL STATEMENTS

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
STATEMENT OF NET POSITION  
JUNE 30, 2019

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 17,381,985
Investments	10,000
Due from other governments	1,746,675
Accrued interest receivable	2,493
Due from other funds	590,473
Advances to other funds	791,977
Inventories	70,106
Prepaid items	896
Restricted assets	2,739,871
Capital assets, net	19,326,627
Total Assets	<u>42,661,103</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pensions	4,710,538
Deferred outflows - OPEB	121,853
Total deferred outflows of resources	<u>4,832,391</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,270,549
Due to other funds	663,571
Advances from other funds	844,104
Interest payable on long-term liabilities	6,750
Long-term liabilities (due beyond one year):	
Capital related liabilities	6,145,000
Non-capital related liabilities	105,259
Net pension liability	37,519,997
Net OPEB liability	2,843,240
Total Liabilities	<u>49,398,470</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	5,477,800
Deferred inflows - OPEB	274,147
Total Deferred Inflows of Resources	<u>5,751,947</u>
<b>Net Position</b>	
Net Investment in Capital Assets	13,181,627
Restricted For:	
Expendable:	
School-based Activities	1,110,988
Debt service	2,620,740
Capital projects	6,388,993
Unemployment benefits	77,138
Forestry improvements	149,241
Nonexpendable:	
Sixteenth section	1,342,891
Unrestricted	(32,528,541)
Total Net Position (Deficit)	<u>\$ (7,656,923)</u>

The accompanying notes are an integral part of this statement.

UNAUDITED  
**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

**EXHIBIT B**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	13,899,433	79,990	2,655,149	(11,164,294)
Support services	13,995,496	--	1,920,506	(12,074,990)
Noninstructional services	2,438,378	70,262	2,749,460	381,344
Sixteenth section	62,718	75,602	--	12,884
Interest on long-term liabilities	242,479	--	--	(242,479)
Total Governmental Activities	<u>\$ 30,638,504</u>	<u>\$ 225,854</u>	<u>\$ 7,325,115</u>	<u>(23,087,535)</u>
General Revenues:				
Taxes:				
General purpose levies				5,913,150
Debt purpose levies				161,082
Unrestricted grants and contributions:				
State				16,189,523
Unrestricted investment earnings				123,867
Increase in fair market value				32,884
Sixteenth section sources				1,024,092
Other				(488,757)
Total General Revenues				<u>22,955,841</u>
Special Items:				
Special Item Inflow				7,495,039
Total General Revenues and Special Items				<u>30,450,880</u>
Change in Net Position				7,363,345
Net Position - Beginning				(15,020,268) *
Net Position - Ending				<u>\$ (7,656,923)</u>

\* As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District and Durant Public School District were consolidated and formed Holmes County Consolidated School District. The final net position of the two consolidated districts are being reported to accurately state the beginning net position of the new entity, Holmes County Consolidated School District.

The accompanying notes are an integral part of this statement.

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2019

	General Fund	2017 Storm Damage Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 10,281,110	\$ 6,388,993	\$ 1,074,815	\$ 17,744,918
Cash with fiscal agents	--	--	27,147	27,147
Investments	--	--	2,359,791	2,359,791
Due from other governments	406,263	--	1,340,412	1,746,675
Accrued interest receivable	--	--	2,493	2,493
Due from other funds	347,507	--	242,966	590,473
Advances to other funds	4,050	--	787,927	791,977
Inventories	--	--	70,106	70,106
Prepaid items	896	--	--	896
Total Assets	<u>\$ 11,039,826</u>	<u>\$ 6,388,993</u>	<u>\$ 5,905,657</u>	<u>\$ 23,334,476</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 894,738	\$ --	\$ 375,811	\$ 1,270,549
Due to other funds	434,723	--	228,848	663,571
Advances from other funds	844,104	--	--	844,104
Total Liabilities	<u>2,173,565</u>	<u>--</u>	<u>604,659</u>	<u>2,778,224</u>
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventory	--	--	70,106	70,106
Permanent fund principal	--	--	1,342,891	1,342,891
Prepaid items	896	--	--	896
<b>Restricted:</b>				
Unemployment benefits	--	--	77,138	77,138
Forestry improvements	--	--	149,241	149,241
Capital improvements	--	6,388,993	--	6,388,993
Debt service	--	--	2,620,740	2,620,740
Grant activities	--	--	327,125	327,125
Food service	--	--	713,757	713,757
<b>Assigned:</b>				
Activity funds	66,303	--	--	66,303
<b>Unassigned</b>	<u>8,799,062</u>	<u>--</u>	<u>--</u>	<u>8,799,062</u>
Total Fund Balances	<u>8,866,261</u>	<u>6,388,993</u>	<u>5,300,998</u>	<u>20,556,252</u>
Total Liabilities and Fund Balances	<u>\$ 11,039,826</u>	<u>\$ 6,388,993</u>	<u>\$ 5,905,657</u>	<u>\$ 23,334,476</u>

The accompanying notes are an integral part of this statement.



UNAUDITED  
**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019

EXHIBIT C-1

Total fund balances for governmental funds balance sheet	\$ 20,556,252
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	19,326,627
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,145,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(6,750)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(105,259)
Recognition of the School District's proportionate share of the net pension liability is not reported in the funds.	(37,519,997)
Deferred Inflows of Resources related to the pension plan are not reported in the funds.	(5,477,800)
Deferred Outflows of Resources related to the pension plan are not reported in the funds.	4,710,538
Recognition of the School District's proportionate share of the net OPEB liability is not reported in the funds.	(2,843,240)
Deferred Inflows of Resources related to the OPEB plan are not reported in the funds.	(274,147)
Deferred Outflows of Resources related to the OPEB plan are not reported in the funds.	121,853
Net position of governmental activities	\$ <u>(7,656,923)</u>

The accompanying notes are an integral part of this statement.

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	2017 Storm Damage Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Local sources	\$ 6,271,597	\$ --	\$ 213,334	\$ 6,484,931
Increase in fair market value	--	--	32,884	32,884
State sources	15,521,707	--	1,400,822	16,922,529
Federal sources	57,581	--	6,530,396	6,587,977
Sixteenth section sources	950,299	--	149,395	1,099,694
Total Revenues	<u>22,801,184</u>	<u>--</u>	<u>8,326,831</u>	<u>31,128,015</u>
<b>Expenditures:</b>				
Instruction	10,812,701	--	3,086,731	13,899,432
Support services	10,593,157	1,100,294	2,302,045	13,995,496
Noninstructional services	15,602	--	2,414,206	2,429,808
Sixteenth section	26,773	--	35,945	62,718
Debt service:				
Principal	--	--	80,000	80,000
Interest	--	--	151,238	151,238
Other	--	--	11,241	11,241
Total Expenditures	<u>21,448,233</u>	<u>1,100,294</u>	<u>8,081,406</u>	<u>30,629,933</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,352,951	(1,100,294)	245,425	498,082
<b>Other Financing Sources (Uses):</b>				
Insurance recovery	5,752	7,489,287	--	7,495,039
Payment held by QZAB and QSCB escrow agent	--	--	3,140	3,140
Transfers in	167,319	--	246,933	414,252
Payment to QZAB and QSCB debt escrow agent	--	--	(624,345)	(624,345)
Transfers out	(198,929)	--	(215,323)	(414,252)
Total Other Financing Sources (Uses)	<u>(25,858)</u>	<u>7,489,287</u>	<u>(589,595)</u>	<u>6,873,834</u>
Net change in Fund Balances	1,327,093	6,388,993	(344,170)	7,371,916
<b>Fund Balances:</b>				
July 1, 2018 *	7,539,168	--	5,653,738	13,192,906
Increase (decrease) in inventory	--	--	(8,570)	(8,570)
June 30, 2019	<u>\$ 8,866,261</u>	<u>\$ 6,388,993</u>	<u>\$ 5,300,998</u>	<u>\$ 20,556,252</u>

\* As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District and Durant Public School District were consolidated and formed Holmes County Consolidated School District. The final fund balance of the two districts which were combined are being reported to accurately state the fund balance of the new entity, Holmes County Consolidated School District.

The accompanying notes are an integral part of this statement.

UNAUDITED  
**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$ 7,371,916
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Change in inventory affects fund balance in the funds but expense in the SOA.	(8,570)
Rounding difference	<u>(1)</u>
Change in net position of governmental activities	\$ <u><u>7,363,345</u></u>

The accompanying notes are an integral part of this statement.

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2019**

	Agency Funds
	<hr/>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,490,049
Due from other funds	(10,782)
Total Assets	<u>\$ 1,479,267</u>
 <b>Liabilities</b>	
Accounts payable & accrued liabilities	\$ 1,467,760
Due to student clubs	1,099
Due to other funds	6,022
Advances from other funds	4,050
Other payables	336
Total Liabilities	<u>\$ 1,479,267</u>

The accompanying notes are an integral part of this statement.

**Holmes County Consolidated School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2019

**Holmes County Consolidated School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2019

**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 board member board is elected by the citizens of each defined county district. As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District and Durant Public School District were consolidated and formed Holmes County Consolidated School District. See Note 16 for further details.

For financial reporting purposes, Holmes County Consolidated 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:

**Holmes County Consolidated School District**

## Notes to the Financial Statements

For the Year Ended June 30, 2019

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.

2017 Storm Damage Fund - This is a capital project fund that accounts for the insurance proceeds that were received for substantial damage as a result of a 2017 tornado.

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:

## Holmes County Consolidated School District

### Notes to the Financial Statements For the Year Ended June 30, 2019

Payroll Clearing Fund - This fund serves as a clearing fund for payroll type transactions.

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

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

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

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

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

#### FIDUCIARY FUNDS

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



**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

eligibility requirements imposed by the provider have been met.

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

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

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

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

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

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*, 2014, issued by the U.S. Department of Education.

**D. Encumbrances**

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

**E. Assets, liabilities, deferred outflows/inflows, and net position/fund balances****1. Cash, Cash equivalents and Investments****Cash and cash equivalents**

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

**Investments**

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

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

Investments for the district are reported at fair market value.

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

## 2. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

## 3. Due from Other Governments

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

## 4. Inventories and Prepaid Items

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

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

## 5. Restricted Assets

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

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019**6. Capital Assets**

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

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

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

The following schedule details the capitalization thresholds:

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

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

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

## 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 periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district have deferred outflows which are presented as deferred outflows for pensions and OPEB.

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 periods an so will not be recognized as an inflow of resources (revenue) until that time. The school district have deferred inflows which are presented as a deferred inflows for pensions and OPEB.

See Note 14 for further details.

## 8. Compensated Absences

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

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

## 9. Long-term Liabilities and Bond Discounts/ Premiums

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

## Holmes County Consolidated School District

### Notes to the Financial Statements For the Year Ended June 30, 2019

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

#### 10. Pensions

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

#### 11. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recorded when the OPEB benefits come due. Investments are reported at fair value as determined by the state.

#### 12. Fund Balances

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

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

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

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

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

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

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

*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 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/expense 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.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 7% of actual received revenues.

**Note 2 - Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments**

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

## Holmes County Consolidated School District

### Notes to the Financial Statements For the Year Ended June 30, 2019

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

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

#### Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$17,744,918 and \$1,490,049, respectively. Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

#### Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$27,147. Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.



**Holmes County Consolidated School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2019

**Investments**

As of June 30, 2019, the district reported \$2,359,791 in investments. Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

**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**

Due from/to other funds are out of balance. See disclaimer of opinion on financial statements and Finding 2019-001.

**B. Advances To/From Other Funds**

Advances to/from other funds are out of balance. See disclaimer of opinion on financial statements and Finding 2019-001.

**C. Inter-fund Transfers**

Transfers in and out are out of balance. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 4 - Restricted Assets**

The restricted assets represent the cash balance totaling \$554,614, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$178 of the MAEP Limited Obligation Bond Fund.

In addition, the restricted assets represent the cash, cash with fiscal agents and investment balances, totaling (\$191,681), \$22,112 and \$1,915,032, respectively, of the QZAB Debt Retirement Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$1,124 and \$101,759, respectively, of the QSCB 2010 Debt Retirement Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances totaling \$3,733 and \$333,000, respectively, of the QSCB 2012 Debt Retirement Fund.

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 5 - Capital Assets**

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

	Holmes County School District Balance 7-1-2018*	Durant Public School District Balance 7-1-2018*	Holmes County Consolidated School District Balance 7-1-2018*	Balance 6-30-2019
<b>Non-depreciable capital assets:</b>				
Land	\$ 256,168	38,890	295,058	295,058
Total non-depreciable capital assets	256,168	38,890	295,058	295,058
<b>Depreciable capital assets:</b>				
Buildings	23,699,202	1,169,883	24,869,085	24,869,085
Buildings improvements	583,157	674,292	1,257,449	1,257,449
Improvements other than buildings	2,787,616		2,787,616	2,787,616
Mobile equipment	4,222,800	194,515	4,417,315	4,417,315
Furniture and equipment	1,814,925	421,778	2,236,703	2,236,703
Total depreciable capital assets	33,107,700	2,460,468	35,568,168	35,568,168
<b>Less accumulated depreciation for:</b>				
Buildings	8,180,680	731,430	8,912,110	8,912,110
Building improvements	406,632	404,631	811,263	811,263
Improvement other than buildings	1,532,019		1,532,019	1,532,019
Mobile equipment	3,060,984	134,116	3,195,100	3,195,100
Furniture and equipment	1,668,548	417,559	2,086,107	2,086,107
Total accumulated depreciation	14,848,863	1,687,736	16,536,599	16,536,599
Total depreciable capital assets, net	18,258,837	772,732	19,031,569	19,031,569
Governmental activities capital assets, net	\$ 18,515,005	811,622	19,326,627	19,326,627

\* As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District and Durant Public School District were consolidated and formed Holmes County Consolidated School District.

See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 6 - Long-term liabilities**

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

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

	Holmes County School District	Durant Public School District	Holmes County Consolidated School District	
	Balance 7-1-2018*	Balance 7-1-2018*	Balance 7-1-2018*	Balance 6-30-2019
A. General obligation bonds payable	\$	445,000	445,000	445,000
B. Qualified zone academy bonds payable	2,500,000		2,500,000	2,500,000
C. Qualified school construction bonds payable	3,200,000		3,200,000	3,200,000
D. Compensated absences payable	96,098	9,161	105,259	105,259
Total	\$ 5,796,098	454,161	6,250,259	6,250,259

\* As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District and Durant Public School District were consolidated and formed Holmes County Consolidated School District. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 7 - Defined Benefit Pension Plan**

Amounts presented in the financial statements are the same as those presented in the fiscal year 2018 audit reports for both Holmes County School District and Durant Public School District. A disclaimer of opinion on the current year financial statement has been issued.

**Note 8 - Other Postemployment Benefits (OPEB)**

Amounts presented in the financial statements are the same as those presented in the fiscal year 2018 audit reports for both Holmes County School District and Durant Public School District. A disclaimer of opinion on the current year financial statement has been issued.

**Note 9 - Sixteenth Section Lands**

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

**Holmes County Consolidated School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2019

**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 Zone Academy Bonds**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark Bank, has entered into such an arrangement dated July 23, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 22<sup>nd</sup> of each year. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 12 - 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 credits rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

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

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 credits is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds

**Holmes County Consolidated School District**Notes to the Financial Statements  
For the Year Ended June 30, 2019

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. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 13 - 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 disallowance resulting from the grantor audit may become a liability of the school district.

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

**Note 14 - Effects of Deferred Amounts on Net Position**

Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 15 - Insurance Recovery**

Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

**Note 16 - School District Consolidation**

As a result of the Regular Session House Bill No. 926 passed by the Mississippi Legislature, on July 1, 2018, the Holmes County School District were consolidated with Durant Public School District to form a new school district known as Holmes County Consolidated School District. The intent of the statutory consolidation is to enable Holmes County Consolidated School District to save money and to provide better education. The initial opening balances of Holmes County Consolidated School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate financial statements of Holmes County School District and Durant Public School District as of June 30, 2018.

# Holmes County Consolidated School District

## Notes to the Financial Statements For the Year Ended June 30, 2019

	Holmes County School District	Durant Public School District	Total	Differences Debit (Credit)	Total
<b>Assets</b>					
Current assets	\$ 9,347,466	1,198,810	10,546,276	10,048,329	20,594,605
Restricted assets	2,914,578	39,208	2,953,786	-213,915	2,739,871
Capital assets, net	18,515,005	811,622	19,326,627		19,326,627
Total Assets	\$ 30,777,049	2,049,640	32,826,689	9,834,414	42,661,103
<b>Deferred Outflows of Resources</b>	3,609,994	1,222,397	4,832,391	0	4,832,391
<b>Liabilities</b>					
Current liabilities	142,235	171,670	313,905	2,471,069	2,784,974
Long-term debt outstanding	5,796,098	454,161	6,250,259		6,250,259
Net OPEB liability	2,472,383	370,857	2,843,240		2,843,240
Net pension liability	31,870,370	5,649,627	37,519,997		37,519,997
Total Liabilities	40,281,086	6,646,315	46,927,401	2,471,069	49,398,470
<b>Deferred Inflows of Resources</b>	4,663,818	1,088,129	5,751,947		5,751,947
<b>Net Position</b>					
Net Investment in Capital Assets	12,815,005	366,622	13,181,627		13,181,627
Restricted	5,435,023	211,965	5,646,988	6,043,003	11,689,991
Unrestricted	(28,807,889)	(5,040,994)	(33,848,883)	1,320,342	(32,528,541)
Total Net Position (Deficit)	\$ (10,557,861)	(4,462,407)	(15,020,268)	7,363,345	(7,656,923)

Amounts presented on the financial statements were disclaimed by the auditor. See disclaimer of opinion on financial statements and Finding 2019-001.

**Holmes County Consolidated School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2019

**Note 17 - State Compliance Testing**

The Mississippi Office of the State Auditor (OSA) has elected to perform procedures in relation to purchasing and compliance with state laws. This report should be viewed in conjunction with the report from OSA in order to gain a comprehensive understanding of the School District's operations. This report and OSA's report will be available on OSA's website at <http://www.osa.ms.gov/reports>.

**Note 18 - Other Matters**

The onset of the recent COVID-19 pandemic has resulted in a volatile investment market currently. The resulting impact of this pandemic upon the operations of the District is uncertain at this time.

**Note 19 - 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 Holmes County Consolidated School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined no subsequent events have occurred requiring disclosure in the notes to the financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION



**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2019

**Exhibit 1**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 6,362,452	6,149,187	6,271,597	(213,265)	122,410
State sources	15,735,642	13,427,966	15,521,707	(2,307,676)	2,093,741
Federal sources	121,823	50,780	57,581	(71,043)	6,801
Sixteenth section sources	726,559		950,299	(726,559)	950,299
Total Revenues	22,946,476	19,627,933	22,801,184	(3,318,543)	3,173,251
<b>Expenditures:</b>					
Instruction	12,110,338	9,269,885	10,812,701	2,840,453	(1,542,816)
Support services	10,736,635	9,942,807	10,593,157	793,828	(650,350)
Noninstructional services	18,979	2,889	15,602	16,090	(12,713)
Sixteenth section	83,600		26,773	83,600	(26,773)
Total Expenditures	22,949,552	19,215,581	21,448,233	3,733,971	(2,232,652)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,076)	412,352	1,352,951	415,428	940,599
<b>Other Financing Sources (Uses):</b>					
Insurance recovery		5,752	5,752	5,752	0
Operating transfers in	1,796,017	70,959	167,319	(1,725,058)	96,360
Operating transfers out	(2,248,974)	(1,200)	(198,929)	2,247,774	(197,729)
Total Other Financing Sources (Uses)	(452,957)	75,511	(25,858)	528,468	(101,369)
Net Change in Fund Balances	(456,033)	487,863	1,327,093	943,896	839,230
<b>Fund Balances:</b>					
July 1, 2018	5,392,100	5,787,318	7,539,168	395,218	1,751,850
June 30, 2019	\$ 4,936,067	6,275,181	8,866,261	1,339,114	2,591,080

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

**Holmes County Consolidated School District**

## Schedule of the District's Proportionate Share of the Net Pension Liability

## PERS

## Last 10 Fiscal Years\*

	2019
District's proportionate share of the net pension liability (asset)	\$ 41,162,445
District's proportion of the net pension liability (asset)	0.247475%
District's covered payroll	15,803,651
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	260.46%
Plan fiduciary net position as a percentage of the total pension liability	62.54%

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

See disclaimer of opinion on financial statements and Finding 2019-001.

\* 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.

The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

**Holmes County Consolidated School District**  
Schedule of District Contributions  
PERS  
Last 10 Fiscal Years\*

	2019
Contractually required contribution	\$ <u>2,311,888</u>
Contributions in relation to the contractually required contribution	2,311,888
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered payroll	14,678,654
Contributions as a percentage of covered payroll	15.75%

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

See disclaimer of opinion on financial statements and Finding 2019-001.

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.

The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

**Holmes County Consolidated School District**

## Schedule of the District's Proportionate Share of the Net OPEB Liability

## OPEB

## Last 10 Fiscal Years\*

		2019
District's proportionate share of the net OPEB liability (asset)	\$	<u>2,870,591</u>
District's proportion of the net OPEB liability		0.37109320%
District's covered-employee payroll		16,784,293 **
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll		17.10%
Plan fiduciary net position as a percentage of the total OPEB liability		0.13%

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

See disclaimer of opinion on financial statements and Finding 2019-001.

\* 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, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

\*\* The amount used to calculate this figure was based on the Implicit Rate Subsidy at measurement date as it relates to contributions.

The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

**Holmes County Consolidated School District**  
**Schedule of District Contributions**  
**OPEB**  
**Last 10 Fiscal Years\***

	2019
Actuarially determined contribution	\$ <u>123,183</u> **
Contributions in relation to the actuarially determined contribution	123,183 **
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered-employee payroll	11,310,533
Contributions as a percentage of covered-employee payroll	1.09%

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

See disclaimer of opinion on financial statements and Finding 2019-001.

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 75 was implemented in FYE 6/30/18, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

\*\* The amounts reflected above only deal with the Implicit Rate Subsidy as it relates to contributions.

The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

**Holmes County Consolidated School District**Notes to the Required Supplementary Information  
For the Year Ended June 30, 2019Budgetary Comparison Schedule

## (1) Basis of Presentation

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

## (2) Budget Amendments and Revisions

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

Pension Schedules(1) *Changes of assumptions*2015:

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.

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.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

**Holmes County Consolidated School District**Notes to the Required Supplementary Information (Continued)  
For the Year Ended June 30, 2019

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

(2) *Changes in benefit provisions*2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

(3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2016 valuation for the June 30, 2018 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	36.6 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB Schedules(1) *Changes of assumptions*2017:

The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

2018:

The discount rate was changed from 3.56% for the prior Measurement Date to 3.89% for the current Measurement Date.

(2) *Changes in benefit provisions*2017:

None

**Holmes County Consolidated School District**

Notes to the Required Supplementary Information (Continued)  
For the Year Ended June 30, 2019

2018:

None

- (3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2017 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent
Initial health care cost trend rates	
Medicare Supplement Claims	7.75 percent
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	5.00 percent
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2023
Pre-Medicare	
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 percent



## SUPPLEMENTARY INFORMATION

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

<b>Federal Grantor/ Pass-through Grantor/ Program Title/</b>	<b>Pass-through Entity Identifying Numbers</b>	<b>Catalog of Federal Domestic Assistance No.</b>	<b>Federal Expenditures</b>
<b><u>U. S. Department of Agriculture</u></b>			
Passed-through the Mississippi Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	185MS326N1099	10.553	\$ 594,766
National School Lunch Program	185MS326N1099	10.555	1,376,822
Summer Food Service Program for Children	185MS326N1099	10.559	187,034
Total Child Nutrition Cluster			<u>2,158,622</u>
Total passed-through the Mississippi Department of Education			<u>2,158,622</u>
<b>Total U.S. Department of Agriculture</b>			<u>2,158,622</u>
<b><u>U.S. Department of Defense</u></b>			
Direct Program:			
Reserve Officers' Training Corps		12.xxx	50,780
<b>Total U.S. Department of Defense</b>			<u>50,780</u>
<b><u>U. S. Department of Education</u></b>			
Passed-through the Mississippi Department of Education:			
Title I Grants to Local Educational Agencies	ES010A170024	84.010	2,461,851
Career and Technical Education - Basic Grants to States	V048A170024	84.048	52,859
Twenty-First Century Community Learning Centers	ES287C170024	84.287	208,246
Rural Education	ES358B170024	84.358	22,945
Supporting Effective Instruction State Grants	ES367A170023	84.367	170,309
School Improvement Grants	ES377A160025	84.377	153,909
Student Support and Academic Enrichment Program	ES424A170025	84.424	66,404
Subtotal			<u>3,136,523</u>
Special Education Cluster:			
Special Education - Grants to States	H027A170108	84.027	638,093
Positive Behavior Specialists	H027A170108	84.027A	6,801
Special Education - Preschool Grants	H173A170113	84.173	17,338
Total Special Education Cluster			<u>662,232</u>
Total passed-through the Mississippi Department of Education			<u>3,798,755</u>
<b>Total U.S. Department of Education</b>			<u>3,798,755</u>
Total for All Federal Awards			\$ <u>6,008,157</u>

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

**Holmes County Consolidated School District**

Notes to the Supplementary Information  
For the Year Ended June 30, 2019

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the school district under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the school district, it is not intended to and does not present the financial position, changes in net position, or cash flows of the school district.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The school district has not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Other Items

Donated commodities of \$187,034 are included in the National School Lunch Program.

**HOLMES COUNTY CONSOLIDATED SCHOOL DISTRICT**

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
For the Year Ended June 30, 2019

<b>Expenditures</b>	<b>Total</b>	<b>Instruction and Other Student Instructional Expenditures</b>	<b>General Administration</b>	<b>School Administration</b>	<b>Other</b>
Salaries and fringe benefits	\$ 21,474,825	14,624,342	1,337,466	1,802,341	3,710,676
Other	9,155,108	2,328,667	859,836	14,685	5,951,920
Total	\$ 30,629,933	16,953,009	2,197,302	1,817,026	9,662,596
Total number of students *	3,088				
Cost per student	\$ 9,919	5,490	712	588	3,129

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

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

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

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

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

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

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

UNAUDITED

## OTHER INFORMATION

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

	"UNAUDITED"
	<u>2019</u>
<b>Revenues:</b>	
Local sources	\$ 6,271,597
State sources	15,521,707
Federal sources	57,581
Sixteenth section sources	<u>950,299</u>
Total Revenues	<u>22,801,184</u>
<b>Expenditures:</b>	
Instruction	10,812,701
Support services	10,593,157
Noninstructional services	15,602
Sixteenth section	<u>26,773</u>
Total Expenditures	<u>21,448,233</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,352,951</u>
<b>Other Financing Sources (Uses):</b>	
Insurance recovery	5,752
Operating transfers in	167,319
Operating transfers out	<u>(198,929)</u>
Total Other Financing Sources (Uses)	<u>(25,858)</u>
Net Change in Fund Balances	<u>1,327,093</u>
<b>Fund Balances:</b>	
Beginning of period	7,539,168 *
Ending of period	<u>\$ 8,866,261</u>

\* The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

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

"UNAUDITED"

	2019
<b>Revenues:</b>	
Local sources	\$ 6,484,931
Increase in fair market value	32,884
State sources	16,922,529
Federal sources	6,587,977
Sixteenth section sources	1,099,694
Total Revenues	<u>31,128,015</u>
<b>Expenditures:</b>	
Instruction	13,899,432
Support services	13,995,496
Noninstructional services	2,429,808
Sixteenth section	62,718
Debt service:	
Principal	80,000
Interest	151,238
Other	11,241
Total Expenditures	<u>30,629,933</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>498,082</u>
<b>Other Financing Sources (Uses):</b>	
Insurance recovery	7,495,039
Payment held by QZAB and QSCB escrow agent	3,140
Operating transfers in	414,252
Payment to QZAB and QSCB debt escrow agent	(624,345)
Operating transfers out	(414,252)
Total Other Financing Sources (Uses)	<u>6,873,834</u>
Net Change in Fund Balances	<u>7,371,916</u>
<b>Fund Balances:</b>	
Beginning of period	13,192,906 *
Increase (Decrease) in inventory	(8,570)
Ending of period	<u>\$ 20,556,252</u>

\* The Mississippi Legislature passed House Bill 926 which provided for an administrative consolidation of the Durant Public School District and the Holmes County School District into one school district to be designated as Holmes County Consolidated School District effective July 1, 2018. Therefore, the figures provided are for the first year the entity came into existence.

## REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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*

Superintendent and School Board  
Holmes County Consolidated School District

We were engaged to audit, 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 Holmes County Consolidated School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Holmes County Consolidated School District's basic financial statements, and have issued our report thereon dated March 17, 2021. Our report disclaims opinions on such financial statements, because of the materiality and pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of inevitable uncertainties. We were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves as to the fair presentation of the financial statements.

**Internal Control Over Financial Reporting**

In connection with our engagement to audit the financial statements, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

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

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

1929 SPILLWAY ROAD, SUITE B  
BRANDON, MISSISSIPPI 39047  
TELEPHONE 601-992-5292 FAX 601-992-2033

control described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a material weakness as Finding 2019-001.

### **Compliance and Other Matters**

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

### **Holmes County Consolidated School District's Response to Finding**

The Holmes County Consolidated School District's response to the finding identified in our audit is described in the accompanying auditee's corrective action plan. The Holmes County Consolidated School District's response was not subjected to the auditing procedures that would have been applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
March 17, 2021

Certified Public Accountants

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE

Superintendent and School Board  
Holmes County Consolidated School District

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

We were engaged to audit Holmes County Consolidated 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 Holmes County Consolidated School District's major federal programs for the year ended June 30, 2019. Holmes County Consolidated 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Holmes County Consolidated School District's major federal programs based on our audit of the types of compliance requirements referred to above. Our audit followed 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). Because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate evidence to provide an opinion on the District's major federal programs.

**Basis of Disclaimer of Opinion on Each Major Federal Program**

Because of the materiality and pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of inevitable uncertainties and, because we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves, the scope of our work was insufficient to enable us to express and we do not express an opinion on the district's compliance with the requirements described in the *OMB Compliance Supplement* that are applicable to each of the district's major federal programs for the year ended June 30, 2019.

1929 SPILLWAY ROAD, SUITE B  
BRANDON, MISSISSIPPI 39047  
TELEPHONE 601-992-5292 FAX 601-992-2033

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2019-002.

Holmes County Consolidated School District's response to the noncompliance finding identified in our audit is described in the accompanying auditee's corrective action plan. Holmes County Consolidated School District's response was not subjected to the auditing procedures that would have been applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of the Holmes County Consolidated School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holmes County Consolidated 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the schedule of findings and questioned costs as Finding 2019-002, that we consider to be a material weakness.

Holmes County Consolidated School District's response to the internal control over compliance finding identified in our audit is described in the accompanying auditee's corrective action plan.

Holmes County Consolidated School District's response was not subjected to the auditing procedures that would have been applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
March 17, 2021

Certified Public Accountants

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Holmes County Consolidated School District

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

#### Section I: Summary of Auditor's Results

##### Financial Statements:

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

##### Federal Awards:

4. Internal control over major programs:
  - a. Material weakness(es) identified? Yes.
  - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Disclaimer of opinion.
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes.
7. Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555 & 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? No.
10. Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.511(b). No.

#### Section II: Financial Statement Findings

The results of our tests disclosed the following finding related to the financial statements that is required to be reported by *Government Auditing Standards*.

## Material Weakness

### Finding 2019-001

#### Criteria:

An effective system of internal controls is the responsibility of management. Management should establish an internal control system that ensures strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records.

#### Condition:

During the course of our audit we found multiple discrepancies with the information provided as supporting documentation for the accounting records and other internal control issues:

- (1) During the testwork of cash, we noted that bank accounts had not been reconciled accurately or timely. Failure to prepare accurate bank reconciliations could lead to misappropriation of assets and material misstatements that could go undetected by management.
- (2) During our test of receivables, the school district was unable to provide receipts for funds received after June 30, 2019.
- (3) During our test of accounts payable, the school district was unable to provide supporting documentation.
- (4) During our test of capital assets, we noted that the school district was not maintaining a subsidiary ledger.
- (5) During our test of payroll expenditures, we noted a difference of \$690,916 between 941 wages and trial balance.
- (6) During our test of revenue, the school district was unable to provide supporting documentation for receivables recorded.

#### Cause:

This is the result of the school district not properly implementing an effective internal control system and maintaining the system.

#### Effect:

Without a proper internal control system being in place to ensure accurate accounting records, the district increases the risk that the financial statements will contain materially misstated accounts. These deficiencies resulted in a disclaimer of opinion on the financial statements.



Recommendation:

The district should implement policies and procedures to establish an internal control system that will ensure strong financial accountability, proper safeguarding of assets, and accurate accounting records.

Views of Responsible Officials:

(1) Bank reconciliations are currently being prepared each month and reviewed for accuracy by Chief Financial officer. All efforts will be made to ensure that this is done timely and reports made to upper management. (2) The district acknowledges that receipts were not being prepared and/or not completed properly. Training has been done with the responsible staff to ensure that this process is done to accurately reflect all funds coming into the district. (3) Training has been done with the staff explaining the importance of supporting documentation, the necessary documentation required and how to assemble. Supporting documentation is maintained electronically in the accounting system as well as physical copies in files. (4) The district now has appointed Fixed Asset Director. This person is responsible for ensuring that all fixed assets are securely safeguarded and are properly accounted for in the accounting system. Work is currently being done and will be ongoing to update all assets all each location within the district. (5) Going forth the district will reconcile this information to ensure accuracy. (6) Going forth the district will maintain all necessary supporting documentation for all receivables recorded.

Section III: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following finding and questioned cost related to the federal awards.

**Material Weakness and Noncompliance**

Program: U. S. Department of Education  
Passed-through the Mississippi Department of Education  
Title I Grants to Local Educational Agencies  
CFDA# 84.010

Compliance requirement: Allowable Cost/Cost Principles

**Finding 2019-002**

Criteria:

Management is responsible for establishing a proper internal control system to ensure adequate financial accountability and safeguarding of the federal program assets.

Condition:

During fieldwork, we noted the following conditions:

(1) Accounting program years were not kept separate in a concise manner.

(2) Questioned Cost from monitoring visit Title I totaled \$257,026.

Context:

During the course of the audit, we noted that the accounting system reflected indirect cost charges but the request for reimbursement did not reflect these charges.

Questioned Costs:

\$257,026.

Cause:

Lack of adequate controls to ensure that the accounting system reflects the budget of the grant application.

Effect:

As a result, the school district is in noncompliance with the federal regulations and could result in repaying the Mississippi Department of Education for excess funds received during the year.

Identification of a Repeat Finding:

No.

Whether Sampling was Statically Valid:

No.

Recommendation:

The school district must develop policies and procedures to ensure that the accounting system reflects the federal budget.

Views of Responsible Officials

The district will ensure that all federal programs are recorded/distinguished by Grant year using a designated 'program code' (ex. 020, 021) in the accounting system. This will allow for proper accounting of each grant received by the district. The district acknowledges the amount of \$257,026 in questioned cost. This amount was remitted to the Mississippi Department of Education on November 19, 2020.

## AUDITEE'S CORRECTIVE ACTION PLAN



**Rev. Anthony Anderson**, President **District A**  
**Louise Winters**, Vice-President **District B**  
**Earsie Simpson**, Secretary **District C**  
**Elder William Dean, Jr.**, Member **District D**  
**Rayford Horton**, Member **District E**

Benjamin G. Torrey, II., **Interim Superintendent**

*Connecting for Success. Every Child. Every Classroom. Every Day*

## AUDITEE'S CORRECTIVE ACTION PLAN

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Holmes County Consolidated 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, 2019:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2019-001	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Name: Appointed Finance officer  Title: Chief Financial Officer  Phone Number: 662-834-2175</p> <p>b. Correction Action Planned:</p> <ol style="list-style-type: none"> <li>1) Bank reconciliations are currently being prepared each month and reviewed for accuracy by Chief Financial officer. All efforts will be made to ensure that this is done timely and reports made to upper management.</li> <li>2) The district acknowledges that receipts were not being prepared and/or not completed properly. Training has been done with the responsible staff to ensure that this process is done to accurately reflect all funds coming into the district.</li> <li>3) Training has been done with the staff explaining the importance of supporting documentation, the necessary documentation required and how to assemble. Supporting documentation is maintained electronically in the accounting system as well as physical copies in files.</li> <li>4) The district now has appointed Fixed Asset Director. This person is responsible for ensuring that all fixed assets are securely safeguarded and are properly accounted for in the accounting system. Work is currently being done and will be ongoing to update all assets at each location within the district.</li> <li>5) Going forth the district will reconcile this information to ensure accuracy.</li> <li>6) Going forth the district will maintain all necessary supporting documentation for all receivables recorded.</li> </ol>

## c. Anticipated Completion Date:

Corrective Action is currently already in process and will be on going.

Finding

2019-002

Corrective Action Plan Details

## a. Name of Contact Person Responsible for Corrective Action

Name: Appointed Finance Officer

Title: Chief Financial Officer

Phone Number: 662-834-2175

## b. Correction Action Planned:

- 1) The district will ensure that all federal programs are recorded/distinguished by Grant year using a designated 'program code' (ex. 020, 021) in the accounting system. This will allow for proper accounting of each grant received by the district.
- 2) The district acknowledges the amount of \$257,026 in questioned cost. This amount was remitted to the MS Department of Education on Nov. 19, 2020. (Ck# 8128)

## c. Anticipated Completion Date:

Item 1 is currently in place and ongoing

Item 2 is completed

