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Forrest County School District

Audited Financial Statements
For the Year Ended June 30, 2016

Fortenberry & Ballard, PC
Certified Public Accountants

**Forrest County School District
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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
Forrest County School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Forrest County School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 8 to 15 and 50 to 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forrest County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were

derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the Forrest County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forrest County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 28, 2016

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following discussion and analysis of Forrest County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2016 decreased \$224,343, including a prior period adjustment of \$15,750, which represents a 13% decrease from fiscal year 2015. Total net position for 2015 decreased \$25,213,687, including a prior period adjustment of (\$25,933,394) resulting from the effect of the net pension liability, which represents a 107% decrease from fiscal year 2014.
- General revenues amounted to \$19,627,349 and \$19,272,249, or 81% and 82% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,531,060, or 19% of total revenues for 2016, and \$4,326,739, or 18% of total revenues for 2015.
- The District had \$24,398,502 and \$22,879,281 in expenses for fiscal years 2016 and 2015; only \$4,531,060 for 2016 and \$4,326,739 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,627,349 for 2016 were not adequate to provide for these programs. General revenues of \$19,272,249 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$19,157,031 in revenues and \$18,127,973 in expenditures for 2016, and \$18,730,168 in revenues and \$18,533,955 in expenditures in 2015. The General Fund's fund balance increased by \$1,071,244 from 2015 to 2016, and increased by \$224,790, including a fund reclassification of \$58,198, from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$455,545 for 2016 and decreased by \$578,634 for 2015. The decrease for 2016 was due to the disposal of mobile equipment, furniture and equipment, and leased property under capital leases coupled with the increase in accumulated depreciation.
- Total long-term debt decreased by \$575,509 for 2016 and decreased by \$547,025 for 2015. The decrease for 2016 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$7,026 for 2016 and increased by \$10,053 for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$1,903,306 as of

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

June 30, 2016.

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

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

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 10,517,525	\$ 9,727,365	8.12 %
Restricted assets	970,673	797,236	21.75 %
Capital assets, net	18,541,105	18,996,650	(2.40) %
Total assets	30,029,303	29,521,251	1.72 %
 Deferred outflows of resources	 6,568,944	 2,803,757	 134.29 %
 Current liabilities	 266,006	 401,793	 (33.80) %
Long-term debt outstanding	4,656,481	5,226,717	(10.91) %
Net pension liability	32,804,100	24,782,985	32.37 %
Total liabilities	37,726,587	30,411,495	24.05 %
 Deferred inflows of resources	 774,966	 3,592,476	 (78.43) %
 Net position:			
Net investment in capital assets	14,042,196	14,006,432	0.26 %
Restricted	3,365,978	3,721,438	(9.55) %
Unrestricted	(19,311,480)	(19,406,833)	(0.49) %
Total net position	\$ (1,903,306)	\$ (1,678,963)	13.36 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (19,311,480)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	27,051,486
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 7,740,006</u>

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

- Decrease in net capital assets in the amount of \$455,545.
- The principal retirement of \$568,483 of long-term debt.
- Recognition of the net pension liability in the amount of \$32,804,100.

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$24,158,409 and \$23,598,988, respectively. The total cost of all programs and services was \$24,398,502 for 2016 and \$22,879,281 for 2015.

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

Table 2
Changes in Net Position

	Year Ended June 30, 2016	Year Ended June 30, 2015	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 548,643	\$ 589,049	(6.86) %
Operating grants and contributions	3,982,417	3,737,690	6.55 %
General revenues:			
Property taxes	7,150,443	7,319,282	(2.31) %
Grants and contributions not restricted	11,935,839	11,438,363	4.35 %
Investment earnings	36,994	39,585	(6.55) %
Sixteenth section sources	251,304	237,934	5.62 %
Other	252,769	237,085	6.62 %
Total revenues	24,158,409	23,598,988	2.37 %
Expenses:			
Instruction	11,393,660	11,446,203	(0.46) %
Support services	7,800,288	7,943,191	(1.80) %
Non-instructional	1,499,810	1,442,602	3.97 %
Sixteenth section	70,297	124,143	(43.37) %
Pension expense	3,505,573	1,778,192	97.14 %
Interest on long-term liabilities	128,874	144,950	(11.09) %
Total expenses	24,398,502	22,879,281	6.64 %
Increase (Decrease) in net position	(240,093)	719,707	(133.36) %
Net Position, July 1, as previously reported	(1,678,963)	23,534,724	(107.13) %
Prior Period Adjustment	15,750	(25,933,394)	100.06 %
Net Position, July 1, as restated	(1,663,213)	(2,398,670)	30.66 %
Net Position, June 30	\$ (1,903,306)	\$ (1,678,963)	(13.36) %

Governmental activities

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

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2016	2015	
Instruction	\$ 11,393,660	\$ 11,446,203	(0.46) %
Support services	7,800,288	7,943,191	(1.80) %
Non-instructional	1,499,810	1,442,602	3.97 %
Sixteenth section	70,297	124,143	(43.37) %
Pension Expense	3,505,573	1,778,192	97.14 %
Interest on long-term liabilities	128,874	144,950	(11.09) %
Total expenses	\$ 24,398,502	\$ 22,879,281	6.64 %

	Net (Expense) Revenue		Percentage Change
	2016	2015	
Instruction	\$ (9,463,341)	\$ (9,599,941)	1.42 %
Support services	(6,732,670)	(6,970,117)	3.41 %
Non-instructional	29,277	55,088	(46.85) %
Sixteenth section	(66,261)	(114,430)	42.09 %
Pension Expense	(3,505,573)	(1,778,192)	(97.14) %
Interest on long-term liabilities	(128,874)	(144,950)	11.09 %
Total net (expense) revenue	\$ (19,867,442)	\$ (18,552,542)	(7.09) %

- Net cost of governmental activities (\$19,867,442 for 2016 and \$18,552,542 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$7,150,443 for 2016 and \$7,319,282 for 2015) and state and federal revenues (\$11,935,839 for 2016 and \$11,438,363 for 2015). In addition, there was \$251,304 and \$237,934 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$36,994 for 2016 and \$39,585 for 2015.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$11,250,034, an increase of \$1,085,747, which includes an increase in inventory of \$343. \$6,877,920, or 61% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund. The remaining fund balance of \$4,372,114, or 39% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,071,244. The fund balance of Other Governmental Funds showed an increase in the amount of \$139,309. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
School Food Service Fund	\$ (124,806)
Title I-A Basic Fund	no increase or decrease

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the fiscal year were routine in nature and were insignificant when compared with total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$33,217,922, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$169,434 from 2015. Total accumulated depreciation as of June 30, 2016, was \$14,676,817, and total depreciation expense for the year was \$751,257, resulting in total net capital assets of \$18,541,105.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 194,027	\$ 194,027	0.00 %
Construction in Progress	20,849	-	N/A %
Buildings	16,860,256	17,347,061	(2.81) %
Building improvements	168,915	179,245	(5.76) %
Improvements other than buildings	143,232	150,799	(5.02) %
Mobile equipment	804,028	947,750	(15.16) %
Furniture and equipment	349,798	162,778	114.89 %
Leased property under capital leases	-	14,990	(100.00) %
Total	\$ 18,541,105	\$ 18,996,650	(2.40) %

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

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Debt Administration. At June 30, 2016, the District had \$4,651,208 in outstanding long-term debt, of which \$515,810 is due within one year. During the fiscal year, the District made principal payments totaling \$568,483 on outstanding long-term debt. The liability for compensated absences decreased \$7,026 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
General obligation refunding bonds payable	\$ 1,135,000	\$ 1,305,000	(13.03) %
Limited obligation bonds payable	1,040,000	1,365,000	(23.81) %
Shortfall notes payable	-	68,150	(100.00) %
Obligations under capital leases	-	5,333	(100.00) %
Qualified school construction bonds payable	2,360,000	2,360,000	0.00 %
Compensated absences payable	116,208	123,234	(5.70) %
Total	<u>\$ 4,651,208</u>	<u>\$ 5,226,717</u>	<u>(11.01) %</u>

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Forrest County School District, 400 Forrest Street, Hattiesburg, MS 39401.

FINANCIAL STATEMENTS

FORREST COUNTY SCHOOL DISTRICT

Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 9,651,461
Due from other governments	833,949
Inventories	32,115
Restricted assets	970,673
Capital assets, non-depreciable:	
Land	194,027
Construction in progress	20,849
Capital assets, net of accumulated depreciation:	
Buildings	16,860,256
Building improvements	168,915
Improvements other than buildings	143,232
Mobile equipment	804,028
Furniture and equipment	349,798
Total Assets	<u>30,029,303</u>
Deferred Outflows of Resources	
Deferred outflow from advance refunding of debt	41,364
Deferred outflow related to pensions	6,527,580
Total Deferred Outflows of Resources	<u>6,568,944</u>
Liabilities	
Accounts payable and accrued liabilities	223,564
Unearned revenue	14,600
Interest payable on long-term liabilities	27,842
Long-term liabilities, due within one year:	
Capital related liabilities	510,000
Non-capital related liabilities	5,810
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,025,000
Capital related bond premiums	5,273
Non-capital related liabilities	110,398
Net pension liability	32,804,100
Total Liabilities	<u>37,726,587</u>
Deferred Inflows of Resources	
Deferred inflow related to pensions	774,966
Total Deferred Inflows of Resources	<u>774,966</u>
Net Position	
Net investment in capital assets	14,042,196
Restricted for:	
Expendable:	
School-based activities	750,644
Debt service	1,444,526
Forestry improvements	161,070
Unemployment benefits	57,894
Non-expendable:	
Sixteenth section	951,844
Unrestricted	(19,311,480)
Total Net Position (deficit)	<u>\$ (1,903,306)</u>

FORREST COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2016**

Exhibit B

						Net (Expense) Revenue and Changes in Net Position
		Program Revenues				
			Charges for Services	Operating Grants and Contributions		
Functions/Programs	Expenses				Governmental Activities	
Governmental Activities:						
Instruction	\$ 11,393,660	\$	310,831	\$ 1,619,488	\$ (9,463,341)	
Support services	7,800,288		6,455	1,061,163	(6,732,670)	
Non-instructional	1,499,810		227,321	1,301,766	29,277	
Sixteenth section	70,297		4,036	-	(66,261)	
Pension expense	3,505,573		-	-	(3,505,573)	
Interest on long-term liabilities	128,874		-	-	(128,874)	
Total Governmental Activities	\$ 24,398,502	\$	548,643	\$ 3,982,417	\$ (19,867,442)	

General Revenues:

Taxes:

General purpose levies 6,819,558

Debt purpose levies 330,885

Unrestricted grants and contributions:

State 11,391,571

Federal 544,268

Unrestricted investment earnings 36,994

Sixteenth section sources 251,304

Other 252,769

Total General Revenues 19,627,349

Change in Net Position (240,093)

Net Position (deficit) - Beginning, as previously reported (1,678,963)

Prior Period Adjustments 15,750

Net Position (deficit) - Beginning, as restated (1,663,213)

Net Position (deficit) - Ending \$ (1,903,306)

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

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2016

Exhibit C

	Major Funds				
	General	School	Title I-A Basic	Other	Total
	Fund	Food Service	Fund	Governmental	Governmental
		Fund		Funds	Funds
Assets					
Cash and cash equivalents	\$ 7,454,485	\$ 878,666	\$ -	\$ 1,725,280	\$ 10,058,431
Cash with fiscal agents	-	-	-	563,703	563,703
Due from other governments	349,174	-	166,736	317,568	833,478
Due from other funds	429,394	-	-	-	429,394
Advance to other funds	-	-	-	544,433	544,433
Inventories	-	32,115	-	-	32,115
Total assets	\$ 8,233,053	\$ 910,781	\$ 166,736	\$ 3,150,984	\$ 12,461,554
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 194,765	\$ 9,199	\$ 1,236	\$ 18,364	\$ 223,564
Due to other funds	-	150,938	165,500	112,485	428,923
Advances from other funds	544,433	-	-	-	544,433
Unearned revenue	14,600	-	-	-	14,600
Total Liabilities	753,798	160,137	166,736	130,849	1,211,520
Fund Balances:					
Nonspendable:					
Inventory	-	32,115	-	-	32,115
Permanent fund principal	-	-	-	407,411	407,411
Advances	-	-	-	544,433	544,433
Restricted:					
Debt service	-	-	-	1,472,368	1,472,368
Forestry improvement purposes	-	-	-	161,070	161,070
Unemployment benefits	-	-	-	57,894	57,894
Food Service	-	718,529	-	-	718,529
Assigned:					
Capital improvements	-	-	-	376,959	376,959
Activity funds	175,312	-	-	-	175,312
Building Maintenance/Technology	385,325	-	-	-	385,325
Special Education	2,836	-	-	-	2,836
Alternative School	8,441	-	-	-	8,441
At Risk Programs	29,421	-	-	-	29,421
Unassigned	6,877,920	-	-	-	6,877,920
Total Fund Balances	7,479,255	750,644	-	3,020,135	11,250,034
Total Liabilities and Fund Balances	\$ 8,233,053	\$ 910,781	\$ 166,736	\$ 3,150,984	\$ 12,461,554

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

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016**

Exhibit C-1

Total fund balances for governmental funds \$ 11,250,034

Amounts reported for governmental activities in the statement of Net Position are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 194,027	
Construction in progress	20,849	
Buildings	25,155,459	
Building improvements	258,255	
Improvements other than buildings	261,580	
Mobile equipment	2,877,911	
Furniture and equipment	4,449,841	
Accumulated depreciation	<u>(14,676,817)</u>	18,541,105

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

Net pension liability	(32,804,100)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	6,527,580	
Deferred inflows of resources related to pensions	<u>(774,966)</u>	5,752,614

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

General obligation refunding bonds	(1,135,000)	
Limited obligation bonds	(1,040,000)	
Other bonds payable	(2,360,000)	
Compensated absences	(116,208)	
Unamortized charges	41,364	
Unamortized premiums	(5,273)	
Accrued interest payable	<u>(27,842)</u>	(4,642,959)

Net position of governmental activities	\$ <u><u>(1,903,306)</u></u>
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The notes to the financial statements are an integral part of this statement.

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016**

Exhibit D

	Major Funds			Other	Total
	General	School	Title I-A Basic	Governmental	Governmental
	Fund	Food Service	Fund	Funds	Funds
Revenues:					
Local sources	\$ 7,412,071	\$ 207,536	\$ -	\$ 332,004	\$ 7,951,611
State sources	10,968,628	14,708	-	907,906	11,891,242
Federal sources	545,699	1,431,820	1,207,598	841,897	4,027,014
Sixteenth section sources	230,633	-	-	51,454	282,087
Total Revenues	19,157,031	1,654,064	1,207,598	2,133,261	24,151,954
Expenditures:					
Instruction	10,535,352	-	772,349	998,193	12,305,894
Support services	7,417,645	191,880	372,192	475,346	8,457,063
Noninstructional services	80,194	1,441,156	22,691	43	1,544,084
Sixteenth section	66,739	-	-	3,558	70,297
Facilities acquisition and construction	-	-	-	5,099	5,099
Debt service:					
Principal	5,333	-	-	563,150	568,483
Interest	22,710	-	-	99,312	122,022
Other	-	-	-	4,824	4,824
Total Expenditures	18,127,973	1,633,036	1,167,232	2,149,525	23,077,766
Excess (Deficiency) of Revenues over (under) Expenditures	1,029,058	21,028	40,366	(16,264)	1,074,188
Other Financing Sources (Uses):					
Insurance recovery	6,455	-	-	-	6,455
Payments held by escrow agent	-	-	-	135,771	135,771
Payment to QSCB debt escrow agent	-	-	-	(135,771)	(135,771)
Sale of other property	-	4,761	-	-	4,761
Operating transfers in	260,815	-	-	692,562	953,377
Operating transfers out	(225,084)	(150,938)	(40,366)	(536,989)	(953,377)
Total Other Financing Sources (Uses)	42,186	(146,177)	(40,366)	155,573	11,216
Net Change in Fund Balances	1,071,244	(125,149)	-	139,309	1,085,404
Fund Balances:					
July 1, 2015	6,408,011	875,450	-	2,880,826	10,164,287
Increase (Decrease) in inventory	-	343			343
June 30, 2016	\$ 7,479,255	\$ 750,644	\$ -	\$ 3,020,135	\$ 11,250,034

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

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2016**

Exhibit D-1

Net change in fund balances - total governmental funds **\$ 1,085,404**

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 292,384	
Depreciation expense	(751,257)	(458,873)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (12,422)

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

Payments of debt principal	568,483	
Accrued interest payable	6,996	575,479

4. Some items reported in the statement of activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:

Recording of pension expense for the current period	(3,505,573)	
Recording of contributions made subsequent to the measurement date	2,077,547	(1,428,026)

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

Change in compensated absences	7,026	
Change in inventory	343	
Amortization of deferred charges, premiums and discounts	(9,024)	(1,655)

Change in Net Position of governmental activities	\$	(240,093)
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The notes to the financial statements are an integral part of this statement.

FORREST COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities June 30, 2016

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 641,085
Total Assets	<u>\$ 641,085</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 640,614
Due to other funds	471
Total Liabilities	<u>\$ 641,085</u>

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

Forrest County School District

Notes to the Financial Statements
For the Year Ended June 30, 2016

Forrest County School District

Notes to the Financial Statements
For the Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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.

School Food Service Fund - This is a special revenue fund that accounts for the revenue received and expenditures incurred related to the food service program.

Title 1 - A Basic Fund - This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title I grants to local educational agencies program.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This agency fund is used to report resources held by the District on behalf of other funds for payroll related liabilities.

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Accounts Payable Clearing Fund - This agency fund is used to report resources held by the District on behalf of other funds for related liabilities.

ET Scholarship Fund - This agency fund is used to report resources held by the District for Students at East Travillion Attendance Center.

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

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

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

FIDUCIARY FUNDS

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

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

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

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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 are 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.

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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 School Construction Bonds sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the governmental column in the government-wide Statement of

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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		*	0

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

7. Deferred outflows/inflows of resources

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

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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

See Note 13 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.

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

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Fund Balances

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

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

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

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

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

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

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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 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 5% of revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$10,058,431 and \$641,085, respectively.

Forrest County School District

Notes to the Financial Statements
For the Year Ended June 30, 2016

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2016, none of the district's bank balance of \$11,632,889 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$563,703.

Note 3 - Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Food Service Fund	\$ 150,938
	Title I - A Basic Fund	165,500
	Other Governmental Funds	112,485
	Fiduciary Funds	471
Total		\$ <u>429,394</u>

The primary purpose of the inter-fund loans was to cover federal funds not received in the prior to year end.

B. Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ <u>544,433</u>

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Year Ending June 30		Principal	Interest	Total
2017	\$	23,514	21,777	45,291
2018		24,454	20,837	45,291
2019		25,432	19,859	45,291
2020		26,450	18,841	45,291
2021		27,508	17,783	45,291
2022 - 2026		154,952	71,503	226,455
2027 - 2031		188,523	37,932	226,455
2032 - 2033		73,600	4,192	77,792
Total	\$	<u>544,433</u>	<u>212,724</u>	<u>757,157</u>

C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	School Food Service Fund	\$ 150,938
	Title I - A Basic Fund	40,366
	Other Governmental Funds	69,511
Other Governmental Funds	General Fund	225,084
	Other Governmental Funds	467,478
Total		\$ <u>953,377</u>

Transfers are used primarily to move unrestricted general fund monies to finance various programs and projects accounted for in other funds.

Note 4 - Restricted Assets

The restricted assets represent the cash balance, totaling \$406,970 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agent totaling \$176,532 of the MAEP Limited Obligation Bond/Note Fund and cash with fiscal agent totaling \$387,171 of the QSCB Bond Retirement Fund.

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Note 5- Capital Assets

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

	Balance 7-1-2015	Additions	Retirements	Adjustments	Balance 6-30-2016
<u>Non-depreciable capital assets:</u>					
Land	\$ 194,027				194,027
Construction in progress		5,099		15,750	20,849
Total non-depreciable capital assets	194,027	5,099	0	15,750	214,876
<u>Depreciable capital assets:</u>					
Buildings	25,155,459				25,155,459
Building improvements	258,255				258,255
Improvements other than buildings	261,580				261,580
Mobile equipment	2,898,411		20,500		2,877,911
Furniture and equipment	4,229,572	287,285	111,802	44,786	4,449,841
Leased property under capital leases	51,184		6,398	(44,786)	0
Total depreciable capital assets	32,854,461	287,285	138,700	0	33,003,046
<u>Less accumulated depreciation for:</u>					
Buildings	7,808,398	486,805			8,295,203
Building improvements	79,010	10,330			89,340
Improvements other than buildings	110,781	7,567			118,348
Mobile equipment	1,950,661	134,292	11,070		2,073,883
Furniture and equipment	4,066,794	105,929	110,684	38,004	4,100,043
Leased property under capital leases	36,194	6,334	4,524	(38,004)	0
Total accumulated depreciation	14,051,838	751,257	126,278	0	14,676,817
Total depreciable capital assets, net	18,802,623	(463,972)	12,422	0	18,326,229
Governmental activities capital assets, net	\$ 18,996,650	(458,873)	12,422	15,750	18,541,105

Adjustments were made to correctly present capital assets.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 406,542
Support services	198,153
Non-instructional	146,562
Total depreciation expense	\$ 751,257

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Construction in progress is composed of:

Governmental Activities:	Spent to June 30, 2016	Remaining Commitments
Renovations to Main Building	\$ <u>20,849</u>	<u>629,999</u>

Note 6 - Long-term liabilities

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

	Balance 7-1-2015	Reductions	Balance 6-30-2016	Amounts due within one year
A. General obligation refunding bonds payable	\$ 1,305,000	170,000	1,135,000	175,000
B. Limited obligation bonds payable	1,365,000	325,000	1,040,000	335,000
C. Shortfall notes payable	68,150	68,150	0	
D. Obligations under capital leases	5,333	5,333	0	
E. Qualified school construction bonds payable	2,360,000		2,360,000	
F. Compensated absences payable	123,234	7,026	116,208	5,810
Total	\$ <u>5,226,717</u>	<u>575,509</u>	<u>4,651,208</u>	<u>515,810</u>
Bond Premiums	\$ <u>6,641</u>	<u>1,368</u>	<u>5,273</u>	<u>1,368</u>

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2012	2.0 - 3.125%	02-01-12	02-01-22	\$ <u>1,795,000</u>	<u>1,135,000</u>

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 175,000	32,556	207,556
2018	180,000	29,056	209,056
2019	190,000	23,656	213,656
2020	190,000	17,956	207,956
2021	195,000	12,256	207,256
2022	205,000	6,406	211,406
Total	\$ <u>1,135,000</u>	<u>121,886</u>	<u>1,256,886</u>

This debt will be retired from the Debt Service Fund.

The mount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater the 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2016, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2015.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement, Series 2009	3.0-3.75%	08-1-09	08-1-18	\$ <u>2,865,000</u>	<u>1,040,000</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 335,000	29,478	364,478
2018	345,000	18,422	363,422
2019	360,000	6,300	366,300
Total	\$ <u>1,040,000</u>	<u>54,200</u>	<u>1,094,200</u>

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

This debt will be retired from the MAEP Retirement Fund.

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

C. Shortfall notes payable

This debt was paid off and retired from the District Maintenance Fund during the year.

D. Obligations under capital leases

This debt was paid off and retired from the District Maintenance Fund during the year.

E. Qualified school construction bonds payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified School Construction Bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bond payable	0.0%	12-23-09	09-15-24	\$ <u>2,360,000</u>	<u>2,360,000</u>

F. Compensated absences payable

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

Note 7 - Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann.

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015, and 2014, were \$2,077,547, \$2,088,126, and \$1,964,981, respectively, which equaled the required contributions for each year.

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

At June 30, 2016, the school district reported a liability of \$32,804,100 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

the June 30, 2016 net pension liability was .212214 percent, which was based on a measurement date of June 30, 2015. This was an increase of .00804 from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,505,573. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 891,445	\$
Net difference between projected and actual earnings on pension plan investments		
Changes of assumptions	2,825,962	3,592,476
Changes in proportion and differences between District contributions and proportionate share of contributions	732,626	(2,817,510)
District contributions subsequent to the measurement date	2,077,547	
Total	\$ 6,527,580	\$ 774,966

\$2,077,547 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 1,300,298
2018	1,247,761
2019	647,160
2020	479,848
Total	\$ 3,675,067

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

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

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

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ <u>43,238,808</u>	\$ <u>32,804,100</u>	\$ <u>24,145,242</u>

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

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

Note 8 - Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 71 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 9 - Contingencies

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

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

Forrest County School District

Notes to the Financial Statements
For the Year Ended June 30, 2016

Note 10 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

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 credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. Annual sinking fund deposit amounts are inclusive of any interest earnings for the prior 12 months. The indicated deposit amount will be reduced by the amount of the prior 12 months' interest earnings. The amount on deposit at June 30, 2016 was \$387,171. The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2017	\$	134,000
2018		132,000
2019		129,000
2020		132,000
2021		131,000
2022 - 2025		1,176,000
Total	\$	<u>1,834,000</u>

Forrest County School District

Notes to the Financial Statements
For the Year Ended June 30, 2016

Note 11 - Sixteenth Section Lands

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

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 131,984
2018	109,846
2019	103,293
2020	92,606
2021	60,677
2022 - 2026	268,320
2027 - 2031	212,458
2032 - 2036	81,995
2037 - 2041	10,316
Total	<u>\$ 1,071,495</u>

Note 12 - Prior Period Adjustments

A summary of significant Net Position adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
Adjustments were made to correctly present capital assets at year end.	\$ <u>15,750</u>

Note 13 - Effect of Deferred Amounts on Net Position

The net investment in capital assets amount \$14,042,196 includes the effects of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of school district debt. The \$41,364 balance of the deferred outflow of resources at June 30, 2016 will be recognized as an expense and will decrease the net investment in capital assets over the coming years.

The unrestricted net position amount of (\$19,311,480) includes the effect of deferring the

Forrest County School District

Notes to the Financial Statements For the Year Ended June 30, 2016

recognition of expenses resulting from a deferred outflow from pensions. The \$6,527,580 balance of deferred outflow of resources, at June 30, 2016 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$19,311,480) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$774,966 balance of deferred inflow of resources, at June 30, 2016 will be recognized as a revenue and will increase the unrestricted net position over the next 4 years.

Note 14 - Insurance Loss Recoveries

The Forrest County School District received \$6,455 in insurance loss recoveries related to school bus damage during the 2015-2016 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as general revenues.

Note 15 - 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 Forrest County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statement.

REQUIRED SUPPLEMENTARY INFORMATION

FORREST COUNTY SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 7,019,367	\$ 7,412,071	\$ 7,412,071	\$ 392,704	\$ -
State sources	11,070,137	10,968,628	10,968,628	(101,509)	-
Federal sources	282,975	596,073	545,699	313,098	(50,374)
Sixteenth section sources	141,198	180,259	230,633	39,061	50,374
Total Revenues	18,513,677	19,157,031	19,157,031	643,354	-
Expenditures:					
Instruction	11,179,607	10,533,983	10,535,352	645,624	(1,369)
Support services	8,101,908	7,402,767	7,417,645	699,141	(14,878)
Noninstructional services	72,480	80,194	80,194	(7,714)	-
Sixteenth section	44,940	66,739	66,739	(21,799)	-
Debt service:					
Principal	28,010	5,333	5,333	22,677	-
Interest	22,722	22,710	22,710	12	-
Total Expenditures	19,449,667	18,111,726	18,127,973	1,337,941	(16,247)
Excess (Deficiency) of Revenues over (under) Expenditures	(935,990)	1,045,305	1,029,058	1,981,295	(16,247)
Other Financing Sources (Uses):					
Insurance recovery	-	6,455	6,455	6,455	-
Operating transfers in	1,404,227	1,055,554	260,815	(348,673)	(794,739)
Operating transfers out	(1,015,170)	(1,036,070)	(225,084)	(20,900)	810,986
Total Other Financing Sources (Uses)	389,057	25,939	42,186	(363,118)	16,247
Net Change in Fund Balances	(546,933)	1,071,244	1,071,244	1,618,177	-
Fund Balances:					
July 1, 2015	3,999,873	6,408,011	6,408,011	2,408,138	-
June 30, 2016	\$ 3,452,940	\$ 7,479,255	\$ 7,479,255	\$ 4,026,315	\$ -

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

FORREST COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
School Food Service Fund
For the Year Ended June 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 303,700	\$ 207,536	\$ 207,536	\$ (96,164)	\$ -
State sources	14,500	14,708	14,708	208	-
Federal sources	1,363,445	1,431,820	1,431,820	68,375	-
Total Revenues	1,681,645	1,654,064	1,654,064	(27,581)	-
Expenditures:					
Support services	179,749	191,880	191,880	(12,131)	-
Noninstructional services	1,551,975	1,441,156	1,441,156	110,819	-
Total Expenditures	1,731,724	1,633,036	1,633,036	98,688	-
Excess (Deficiency) of Revenues over (under) Expenditures					
	(50,079)	21,028	21,028	71,107	-
Other Financing Sources (Uses):					
Sale of other property	-	4,761	4,761	4,761	-
Operating transfers out	(172,393)	(150,938)	(150,938)	21,455	-
Total Other Financing Sources (Uses)	(172,393)	(146,177)	(146,177)	26,216	-
Net Change in Fund Balances					
	(222,472)	(125,149)	(125,149)	97,323	-
Fund Balances:					
July 1, 2015, as previously reported	400,000	875,450	875,450	475,450	-
Prior period adjustment	-	343	-	343	(343)
July 1, 2015, as restated	400,000	875,793	875,450	475,793	(343)
Increase (Decrease) in inventory					
	-	-	343	-	343
June 30, 2016					
	\$ 177,528	\$ 750,644	\$ 750,644	\$ 573,116	\$ -

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

FORREST COUNTY SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I-A Basic Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,252,625	\$ 1,207,598	\$ 1,207,598	\$ (45,027)	\$ -
Total Revenues	1,252,625	1,207,598	1,207,598	(45,027)	-
Expenditures:					
Instruction	843,201	772,349	772,349	70,852	-
Support services	356,898	372,192	372,192	(15,294)	-
Noninstructional services	12,526	22,691	22,691	(10,165)	-
Total Expenditures	1,212,625	1,167,232	1,167,232	45,393	-
Excess (Deficiency) of Revenues over (under) Expenditures	40,000	40,366	40,366	366	-
Other Financing Sources (Uses):					
Operating transfers out	(40,000)	(40,366)	(40,366)	(366)	-
Total Other Financing Sources (Uses)	(40,000)	(40,366)	(40,366)	(366)	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ -	\$ -	\$ -	\$ -

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

Forrest County School District

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

PERS

Last 10 Fiscal Years*

	2016	2015
District's proportion of the net pension liability (asset) \$	32,804,100	24,782,985
District's proportionate share of the net pension liability (asset)	0.212214%	0.204174%
District's covered - employee payroll	13,257,943	12,476,070
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	247.43%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

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

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

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

Forrest County School District
Schedule of District Contributions
PERS
Last 10 Fiscal Years*

	2016	2015
Contractually required contribution	\$ 2,077,547	2,088,126
Contributions in relation to the contractually required contribution	2,077,547	2,088,126
Contribution deficiency (excess)	\$ -	-
District's covered - employee payroll	13,190,775	13,257,943
Contributions as a percentage of covered - employee payroll	15.75%	15.75%

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

Forrest County School District

Notes to the Required Supplementary Information For the Year Ended June 30, 2016

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

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

SUPPLEMENTARY INFORMATION

FORREST COUNTY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title/	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 404,928
National School Lunch Program	10.555	1,026,892
Total Child Nutrition Cluster		1,431,820
Total passed-through the Mississippi Department of Education		1,431,820
Passed-through the Forrest County:		
Schools and Roads - Grants to States	10.665	68,419
Total passed-through the Forrest County		68,419
Total U.S. Department of Agriculture		1,500,239
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,207,598
Career and Technical Education - Basic Grants to States	84.048	38,568
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	1,316
Supportive Effective Instruction State Grant	84.367	143,944
Subtotal		1,391,426
Special Education Cluster:		
Special Education - Grants to States	84.027	639,637
Special Education - Preschool Grants	84.173	26,180
Total Special Education Cluster		665,817
Total passed-through the Mississippi Department of Education		2,057,243
Total U.S. Department of Education		2,057,243
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical Assistance Program	93.778	106,533
Total passed-through the Mississippi Department of Education		106,533
Total U. S. Department of Health and Human Services		106,533
Total for All Federal Awards		\$ 3,664,015

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

FORREST COUNTY SCHOOL DISTRICT

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits \$	17,895,332	13,039,817	1,194,442	1,244,905	2,416,168
Other	5,182,434	1,383,162	414,358	46,961	3,337,953
Total	\$ 23,077,766	14,422,979	1,608,800	1,291,866	5,754,121
Total number of students *	2,275				
Cost per student	\$ 10,144	6,340	707	568	2,529

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.

Forrest County School District

Notes to the Supplementary Information
For the Year Ended June 30, 2016

(1) Schedule of Expenditures of Federal Awards

- a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the school district and is presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements; however, the expenditures include transfers out. 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). Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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.
- b. The pass-through entities did not assign identifying numbers to the school district.
- c. The school district did not elect to use the 10% de minimis indirect cost rate.
- d. Donated commodities of \$101,055 are included in the National School Lunch Program.

(2) Schedule of Instructional Administrative and Other Expenditures - Governmental Funds

- a. This schedule is presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements.

OTHER INFORMATION

FORREST COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 7,412,071	7,524,546	7,117,175	6,736,785
State sources	10,968,628	10,596,603	9,791,946	10,077,001
Federal sources	545,699	409,989	241,896	269,746
Sixteenth section sources	230,633	199,030	-	-
Total Revenues	<u>19,157,031</u>	<u>18,730,168</u>	<u>17,151,017</u>	<u>17,083,532</u>
Expenditures:				
Instruction	10,535,352	10,658,023	10,183,181	9,781,972
Support services	7,417,645	7,587,581	7,806,505	7,132,629
Noninstructional services	80,194	75,873	77,599	79,567
Sixteenth section	66,739	96,299	-	-
Facilities acquisition and construction	-	81,904	49,068	-
Debt service:				
Principal	5,333	10,520	10,328	10,139
Interest	22,710	23,755	18,945	584
Total Expenditures	<u>18,127,973</u>	<u>18,533,955</u>	<u>18,145,626</u>	<u>17,004,891</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,029,058</u>	<u>196,213</u>	<u>(994,609)</u>	<u>78,641</u>
Other Financing Sources (Uses):				
Notes issued	-	-	-	200,000
Insurance recovery	6,455	-	16,916	-
Sales of transportation equipment	-	-	-	5,775
Operating transfers in	260,815	316,135	748,493	383,081
Operating transfers out	(225,084)	(345,756)	(963,542)	(1,399,311)
Total Other Financing Sources (Uses)	<u>42,186</u>	<u>(29,621)</u>	<u>(198,133)</u>	<u>(810,455)</u>
Net Change in Fund Balances	<u>1,071,244</u>	<u>166,592</u>	<u>(1,192,742)</u>	<u>(731,814)</u>
Fund Balances:				
July 1, as previously reported	6,408,011	6,183,221	7,375,963	8,107,777
Fund reclassification	-	58,198	-	-
July 1, as restated	<u>6,408,011</u>	<u>6,241,419</u>	<u>7,375,963</u>	<u>8,107,777</u>
June 30,	<u>\$ 7,479,255</u>	<u>6,408,011</u>	<u>6,183,221</u>	<u>7,375,963</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

FORREST COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 7,951,611	8,145,094	7,697,369	7,335,589
State sources	11,891,242	11,493,752	10,679,281	10,974,915
Federal sources	4,027,014	3,682,301	3,628,662	3,643,013
Sixteenth section sources	282,087	277,841	313,485	376,120
Total Revenues	<u>24,151,954</u>	<u>23,598,988</u>	<u>22,318,797</u>	<u>22,329,637</u>
Expenditures:				
Instruction	12,305,894	12,354,029	11,839,030	11,614,998
Support services	8,457,063	8,529,605	8,858,223	8,129,513
Noninstructional services	1,544,084	1,357,066	1,270,465	1,353,091
Sixteenth section	70,297	124,143	172,236	73,378
Facilities acquisition and construction	5,099	81,904	678,641	1,641,517
Debt service:				
Principal	568,483	557,078	766,405	742,035
Interest	122,022	137,492	152,654	153,793
Other	4,824	5,230	4,724	9,059
Total Expenditures	<u>23,077,766</u>	<u>23,146,547</u>	<u>23,742,378</u>	<u>23,717,384</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,074,188</u>	<u>452,441</u>	<u>(1,423,581)</u>	<u>(1,387,747)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	-	200,000
Insurance recovery	6,455	-	16,916	-
Payment held by escrow agent	135,771	52,976	51,206	49,462
Payment to QSCB debt escrow agent	(135,771)	(52,976)	(51,206)	(49,462)
Sale of transportation equipment	-	-	-	5,775
Sale of other property	4,761	-	-	-
Operating transfers in	953,377	661,891	1,731,003	1,783,301
Other financing sources	-	-	5,203	-
Operating transfers out	(953,377)	(661,891)	(1,731,003)	(1,783,301)
Other financing uses	-	-	-	(4,697)
Total Other Financing Sources (Uses)	<u>11,216</u>	<u>-</u>	<u>22,119</u>	<u>201,078</u>
Net Change in Fund Balances	<u>1,085,404</u>	<u>452,441</u>	<u>(1,401,462)</u>	<u>(1,186,669)</u>
Fund Balances:				
July 1, as previously reported	10,164,287	9,720,677	11,123,490	12,299,733
Increase (decrease) in inventory	343	(8,831)	(1,351)	10,426
June 30,	<u>\$ 11,250,034</u>	<u>10,164,287</u>	<u>9,720,677</u>	<u>11,123,490</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL 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
Forrest County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forrest County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Forrest County School District's basic financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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
December 28, 2016

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
Forrest County School District

Report on Compliance for Each Major Federal Program

We have audited Forrest County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Forrest County School District's major federal program for the year ended June 30, 2016. The Forrest County School District's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Forrest County School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination on the school district's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Forrest County School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Forrest County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 28, 2016

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Forrest County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2016, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated December 28, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 28, 2016

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Forrest County School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No.
7. Identification of major programs:

CFDA Numbers:	Name of Federal Program or 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? Yes.

Section II: Financial Statements Findings

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

Section III: Federal Awards Findings and Questioned Costs

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