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HOLLY SPRINGS SCHOOL DISTRICT

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

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

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HOLLY SPRINGS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Holly Springs School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Continued -

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District, as of June 30, 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 13-20, 51-52, 53 and 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holly Springs School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by 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.

INDEPENDENT AUDITOR'S REPORT

- Continued -

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of the Holly Springs School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holly Springs School District's internal control over financial reporting and compliance.

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 15, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

The following discussion and analysis of Holly Springs School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 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 increased \$748,399, including a prior period adjustment of \$(19,283), which represents an 11.83% increase from fiscal year 2015. Total net position for 2015 decreased \$14,872,852, including a prior period adjustment of \$(15,739,960), which represents a 174.05% decrease from fiscal year 2014.
- General revenues amounted to \$12,083,104 and \$11,615,170, or 78.04% and 77.32% 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 \$3,399,821, or 21.96% of total revenues for 2016, and \$3,407,014, or 22.68 % of total revenues for 2015.
- The District had \$14,715,243 and \$14,155,076 in expenses for fiscal years 2016 and 2015; only \$3,399,821, for 2016 and \$3,407,104 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,083,104 for 2016 and \$11,615,170 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,010,608 in revenues and \$10,149,824 in expenditures for 2016, and \$10,522,814 in revenues and \$9,770,567 in expenditures in 2015. The General Fund's fund balance increased by \$356,733 from 2015 to 2016, and increased by \$290,845 from 2014 to 2015.
- Capital assets, net of accumulated depreciation, increased by \$5,846,366 for 2016 and increased by \$2,424,249 for 2015. The increase for 2016 was due to the construction in progress addition of \$6,180,464 coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$375,781 for 2016 and decreased by \$697,109 for 2015. This decrease for 2016 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$16,686 for 2016 and increased by \$4,675 for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between the 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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

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.

Pension plan contributions affect the net pension liability reported on the government-wide financial statements, but are recorded as expenditures on the governmental funds financial statements.

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,579,484 as of 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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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	\$ 4,246,498	\$ 3,714,558	14.32 %
Restricted assets	1,328,422	7,183,419	(81.51) %
Capital assets, net	17,598,849	11,752,483	49.75 %
Total assets	23,173,769	22,650,460	2.31 %
 Deferred outflows of resources	 4,062,662	 1,343,363	 202.42 %
Current liabilities	1,001,215	1,058,941	(5.45) %
Long-term debt outstanding	11,962,245	12,338,026	(3.05) %
Net pension liability	17,467,572	14,687,185	18.93 %
Total liabilities	30,431,032	28,084,152	8.36 %
 Deferred inflows of resources	 2,384,883	 2,237,554	 6.58 %
 Net position:			
Net investment in capital assets	6,073,204	6,094,087	(0.34) %
Restricted	1,255,148	798,870	57.12 %
Unrestricted	(12,907,836)	(13,220,840)	2.37 %
Total net position	\$ (5,579,484)	\$ (6,327,883)	11.83 %

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)	(\$ 12,907,836)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	15,789,793
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 2,881,957</u>

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

- Increase in net capital assets in the amount of \$5,846,366.
- The principal retirement of \$700,752 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$15,482,925 and \$15,022,184, respectively. The total cost of all programs and services was \$14,715,243 for 2016 and \$14,155,076 for 2015.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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	\$ 251,233	\$ 203,232	23.62 %
Operating grants and contributions	3,148,588	3,203,782	(1.72) %
General revenues:			
Property taxes	4,354,079	4,307,896	1.07 %
Grants and contributions not restricted	7,650,170	7,241,288	5.65 %
Investment earnings	50,343	54,776	(8.09) %
Other	28,512	11,210	154.34 %
Total revenues	15,482,925	15,022,184	3.07 %
Expenses:			
Instruction	6,598,705	6,799,157	(2.95) %
Support services	5,318,689	4,878,041	9.03 %
Non-instructional	996,144	1,022,171	(2.55) %
Pension expense	1,328,751	955,663	39.04 %
Interest on long-term liabilities	472,954	500,044	(5.42) %
Total expenses	14,715,243	14,155,076	3.96 %
Increase (Decrease) in net position	767,682	867,108	(11.47) %
Net Position, July 1, as previously reported	(6,327,883)	8,544,969	(174.05) %
Prior Period Adjustment	(19,283)	(15,739,960)	99.88 %
Net Position, July 1, as restated	(6,347,166)	(7,194,991)	11.78 %
Net Position, June 30	\$ (5,579,484)	\$ (6,327,883)	11.83 %

Governmental activities

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

**HOLLY SPRINGS 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	\$ 6,598,705	\$ 6,799,157	(2.95) %
Support services	5,318,689	4,878,041	9.03 %
Non-instructional	996,144	1,022,171	(2.55) %
Pension Expense	1,328,751	955,663	39.04 %
Interest on long-term liabilities	472,954	500,044	(5.42) %
Total expenses	\$ 14,715,243	\$ 14,155,076	3.96 %

	Net (Expense) Revenue		Percentage Change
	2016	2015	
Instruction	\$ (5,498,932)	\$ (5,594,656)	(1.71) %
Support services	(4,148,830)	(3,768,350)	10.10 %
Non-instructional	101,430	36,239	179.89 %
Pension Expense	(1,328,751)	(955,663)	39.04 %
Interest on long-term liabilities	(440,339)	(465,632)	(5.43) %
Total net (expense) revenue	\$ (11,315,422)	\$ (10,748,062)	5.28 %

- Net cost of governmental activities (\$11,315,422 for 2016 and \$10,748,062 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$4,354,079 for 2016 and \$4,307,896 for 2015) and state and federal revenues (\$7,650,170 for 2016 and \$7,241,288 for 2015).
- Investment earnings amounted to \$50,343 for 2016 and \$54,776 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 \$4,725,218, a decrease of \$5,266,947, which includes a prior period adjustment of \$(19,283) and a decrease in inventory of \$1,595. \$2,726,324 or 57.7% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,998,894 or 42.3% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS - Continued

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 \$356,733. The fund balance of Other Governmental Funds showed an increase in the amount of \$555,287, which includes a prior period adjustment of \$(19,283) and a decrease in reserve for inventory of \$1,595, due primarily to the accumulated balance of ad valorem taxes for the payment of a bond issue due in August. The decrease in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
Title I-A Basic Fund	\$	no increase or decrease
Capital Project Fund	\$	(6,178,967)

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$25,799,875, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$6,286,806 from 2015. Total accumulated depreciation as of June 30, 2016, was \$8,201,026, and total depreciation expense for the year was \$446,825, resulting in total net capital assets of \$17,598,849.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 65,155	\$ 65,155	0.00 %
Construction in Progress	9,301,142	3,120,678	198.05 %
Buildings	5,914,429	6,090,579	(2.89) %
Building improvements	1,582,540	1,657,806	(4.54) %
Improvements other than buildings	144,997	154,938	(6.42) %
Mobile equipment	440,242	513,779	(14.31) %
Furniture and equipment	150,344	149,548	0.53 %
Total	\$ 17,598,849	\$ 11,752,483	49.75 %

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

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Debt Administration. At June 30, 2016, the District had \$11,962,245 in outstanding long-term debt, of which \$896,173 is due within one year. The liability for compensated absences decreased \$16,686 from the prior year.

The District maintains an AA-stable bond rating.

**Table 5
Outstanding Long-Term Debt**

	June 30, 2016	June 30, 2015	Percentage Change
General obligation bonds payable	\$ 9,360,000	\$ 9,555,000	(2.04) %
Premiums/Discounts	171,627	181,162	(5.26) %
General obligation refunding bonds payable	440,000	650,000	(32.31) %
Premiums/Discounts	6,816	10,224	(33.33) %
Limited obligation refunding bonds payable	790,000	1,035,000	(23.67) %
Premiums/Discounts	10,801	16,201	(33.33) %
Three mill notes payable	360,000		N/A %
Qualified school construction bonds payable	746,401	797,153	(6.37) %
Compensated absences payable	76,600	93,286	(17.89) %
Total	\$ 11,962,245	\$ 12,338,026	(3.05) %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

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HOLLY SPRINGS SCHOOL DISTRICT

Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,317,984
Due from other governments	644,367
Other receivables, net	35,078
Inventories	16,836
Prepaid items	232,233
Restricted assets	1,328,422
Capital assets, non-depreciable:	
Land	65,155
Construction in progress	9,301,142
Capital assets, net of accumulated depreciation:	
Buildings	5,914,429
Building improvements	1,582,540
Improvements other than buildings	144,997
Mobile equipment	440,242
Furniture and equipment	150,344
Total Assets	<u>23,173,769</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	<u>4,062,662</u>
Total deferred outflows of resources	<u>4,062,662</u>
Liabilities	
Accounts payable and accrued liabilities	849,702
Interest payable on long-term liabilities	151,513
Long-term liabilities, due within one year:	
Capital related liabilities	896,173
Long-term liabilities, due beyond one year:	
Capital related liabilities	10,989,472
Non-capital related liabilities	76,600
Net pension liability	17,467,572
Total Liabilities	<u>30,431,032</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	<u>2,384,883</u>
Total deferred inflows of resources	<u>2,384,883</u>
Net Position	
Net investment in capital assets	
Restricted for:	6,073,204
Expendable:	
School-based activities	176,757
Debt service	656,370
Capital improvements	391,434
Unemployment benefits	30,587
Unrestricted	(12,907,836)
Total Net Position	<u>\$ (5,579,484)</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2016

				Net (Expense) Revenue and Changes in Net Position
		Program Revenues		
		Charges for	Operating	
Functions/Programs	Expenses	Services	Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,598,705	\$ 137,236	\$ 962,537	\$ (5,498,932)
Support services	5,318,689	33,918	1,135,941	(4,148,830)
Non-instructional	996,144	47,464	1,050,110	101,430
Pension expense	1,328,751			(1,328,751)
Interest on long-term liabilities	472,954	32,615		(440,339)
Total Governmental Activities	\$ 14,715,243	\$ 251,233	\$ 3,148,588	\$ (11,315,422)

General Revenues:

Taxes:

General purpose levies	\$ 3,397,643
Debt purpose levies	956,436

Unrestricted grants and contributions:

State	7,418,126
Federal	232,044
Unrestricted investment earnings	50,343
Other	28,512
Total General Revenues	<u>12,083,104</u>

Change in Net Position	<u>767,682</u>
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Net Position - Beginning, as previously reported	(6,327,883)
Prior Period Adjustments	<u>(19,283)</u>

Net Position - Beginning, as restated	<u>(6,347,166)</u>
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Net Position - Ending	<u>\$ (5,579,484)</u>
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The notes to the financial statements are an integral part of this statement.

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

Balance Sheet

Exhibit C

June 30, 2016

	Major Funds			Other	Total
	General	Title I-A Basic	Capital Project	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Assets					
Cash and cash equivalents	\$ 2,612,707	\$	\$ 836,666	\$ 1,065,277	\$ 4,514,650
Cash with fiscal agents				131,756	131,756
Due from other governments	190,255	136,131		317,981	644,367
Other receivables, net	26,422	470			26,892
Due from other funds	185,754	455		11,686	197,895
Advance to other funds	19,297				19,297
Inventories				16,836	16,836
Prepaid items	232,233				232,233
Total assets	3,266,668	137,056	836,666	1,543,536	5,783,926
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 288,292	\$ 30,657	\$ 457,093	\$ 73,215	\$ 849,257
Due to other funds	522	106,399		83,233	190,154
Advances from other funds				19,297	19,297
Total Liabilities	288,814	137,056	457,093	175,745	1,058,708
Fund Balances:					
Nonspendable:					
Inventory				16,836	16,836
Advances	19,297				19,297
Prepaid items	232,233				232,233
Restricted:					
Debt service				807,883	807,883
Capital improvements			379,573	371,861	751,434
Unemployment benefits				30,587	30,587
Assigned:					
School activities				140,624	140,624
Unassigned	2,726,324				2,726,324
Total Fund Balances	2,977,854	-	379,573	1,367,791	4,725,218
Total Liabilities and Fund Balances	\$ 3,266,668	\$ 137,056	\$ 836,666	\$ 1,543,536	\$ 5,783,926

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

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

Exhibit C-1

Total fund balances for governmental funds \$ 4,725,218

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

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

Land	\$	65,155	
Construction in progress		9,301,142	
Buildings		10,574,905	
Building improvements		2,279,808	
Improvements other than buildings		248,515	
Mobile equipment		1,689,352	
Furniture and equipment		1,640,998	
Accumulated depreciation		<u>(8,201,026)</u>	17,598,849

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

Net pension liability		(17,467,572)	
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Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		4,062,662	
Deferred inflows of resources related to pensions		<u>(2,384,883)</u>	(15,789,793)

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

General obligation bonds		(9,800,000)	
Limited obligation bonds		(790,000)	
Notes payable		(360,000)	
Qualified school construction bonds		(746,401)	
Compensated absences		(76,600)	
Unamortized premiums		(189,244)	
Accrued interest payable		<u>(151,513)</u>	(12,113,758)

Net Position of governmental activities		<u><u>\$ (5,579,484)</u></u>	
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The notes to the financial statements are an integral part of this statement.

HOLLY SPRINGS 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	Title I-A Basic	Capital Project	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Revenues:					
Local sources	\$ 3,628,394	\$	\$ 10,971	\$ 1,012,187	\$ 4,651,552
State sources	7,101,827			611,200	7,713,027
Federal sources	280,387	1,058,801		1,779,158	3,118,346
Total Revenues	<u>11,010,608</u>	<u>1,058,801</u>	<u>10,971</u>	<u>3,402,545</u>	<u>15,482,925</u>
Expenditures:					
Instruction	5,705,586	448,896		852,219	7,006,701
Support services	4,444,238	528,384	9,316	674,521	5,656,459
Noninstructional services		71,303		964,476	1,035,779
Facilities acquisition and construction			6,180,622	15,768	6,196,390
Debt service:					
Principal				700,752	700,752
Interest				487,156	487,156
Other				5,757	5,757
Total Expenditures	<u>10,149,824</u>	<u>1,048,583</u>	<u>6,189,938</u>	<u>3,700,649</u>	<u>21,088,994</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>860,784</u>	<u>10,218</u>	<u>(6,178,967)</u>	<u>(298,104)</u>	<u>(5,606,069)</u>
Other Financing Sources (Uses):					
Bonds and notes issued				360,000	360,000
Operating transfers in	24,594			528,645	553,239
Operating transfers out	(528,645)	(10,218)		(14,376)	(553,239)
Total Other Financing Sources (Uses)	<u>(504,051)</u>	<u>(10,218)</u>	<u>-</u>	<u>874,269</u>	<u>360,000</u>
Net Change in Fund Balances	<u>356,733</u>	<u>-</u>	<u>(6,178,967)</u>	<u>576,165</u>	<u>(5,246,069)</u>
Fund Balances:					
July 1, 2015, as previously reported	2,621,121		6,558,540	812,504	9,992,165
Prior period adjustments				(19,283)	(19,283)
July 1, 2015, as restated	<u>2,621,121</u>	<u>-</u>	<u>6,558,540</u>	<u>793,221</u>	<u>9,972,882</u>
Increase (Decrease) in reserve for inventory				<u>(1,595)</u>	<u>(1,595)</u>
June 30, 2016	<u>\$ 2,977,854</u>	<u>\$ -</u>	<u>\$ 379,573</u>	<u>\$ 1,367,791</u>	<u>\$ 4,725,218</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ (5,246,069)

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	\$ 6,293,256	
Depreciation expense	<u>(446,825)</u>	5,846,431

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.

(65)

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:

Bonds and notes issued	(360,000)	
Payments of debt principal	245,752	
Payments on refunded bonds	455,000	
Accrued interest payable	<u>1,616</u>	342,368

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

Pension expense	(1,328,751)	
Contributions made after the measurement date	<u>1,120,334</u>	(208,417)

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	16,686	
Change in inventory reserve	(1,595)	
Amortization of premiums	<u>18,343</u>	33,434

Change in Net Position of governmental activities		<u><u>\$ 767,682</u></u>
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The notes to the financial statements are an integral part of this statement.

HOLLY SPRINGS SCHOOL DISTRICT**Fiduciary Funds****Statement of Fiduciary Assets and Liabilities
June 30, 2016****Exhibit E**

	Agency Funds
Assets	
Cash and cash equivalents	\$ 615,502
Other receivables, net	1,287
Due from other funds	1,031
Total Assets	<u>\$ 617,820</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 569,028
Due to other funds	8,772
Due to student clubs	40,020
Total Liabilities	<u>\$ 617,820</u>

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

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HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Holly Springs since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies - Continued

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

The school district reports the following major governmental funds:

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

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

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund is used to account for all payroll transactions including salaries and wages, withholding, employee benefits, and payroll taxes.

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies - Continued

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

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

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

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

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

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

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

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

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies - Continued

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies – Continued

5. Restricted Assets

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

7. Deferred outflows/inflows of resources

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

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

See Note 8 and Note 13 for further details.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies - Continued

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

11. Fund Balances

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

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 1 – Summary of Significant Accounting Policies - Continued

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

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

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

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

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

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

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 \$ 4,514,650 and \$615,502, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. 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.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$131,756.

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I-A Basic	\$ 106,399
	Other governmental funds	72,290
	Fiduciary funds	7,065
Title I-A Basic	Fiduciary funds	455
Other governmental funds	General Fund	77
	Other governmental funds	10,943
	Fiduciary funds	666
Fiduciary funds	General Fund	445
	Fiduciary funds	586
Total		<u>\$ 198,926</u>

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

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ <u>19,297</u>

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

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

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 528,645
Title I-A Basic	General Fund	10,218
Other governmental funds	General Fund	14,376
Total		<u>\$ 553,239</u>

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

Note 4 – Restricted Assets

The restricted assets represent the cash with fiscal agent balance totaling \$131,756 of MAEP Limited Obligation Bond/Note Fund, the cash balance of \$836,666 of the Capital Project Fund and \$360,000 of a non-major fund which are restricted for the construction and capital improvements.

Note 5 – Capital Assets

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

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 65,155	\$	\$	\$ 65,155
Construction-in-progress	3,120,678	6,180,464		9,301,142
Total non-depreciable capital assets	3,185,833	6,180,464	-	9,366,297
<u>Depreciable capital assets:</u>				
Buildings	10,574,905			10,574,905
Building improvements	2,263,882	15,926		2,279,808
Improvements other than buildings	248,515			248,515
Mobile equipment	1,689,352			1,689,352
Furniture and equipment	1,550,582	96,866	6,450	1,640,998
Total depreciable capital assets	16,327,236	112,792	6,450	16,433,578
<u>Less accumulated depreciation for:</u>				
Buildings	4,484,326	176,150		4,660,476
Building improvements	606,076	91,192		697,268
Improvements other than buildings	93,577	9,941		103,518
Mobile equipment	1,175,573	73,537		1,249,110
Furniture and equipment	1,401,034	96,005	6,385	1,490,654
Total accumulated depreciation	7,760,586	446,825	6,385	8,201,026
Total depreciable capital assets, net	8,566,650	(334,033)	65	8,232,552
Governmental activities capital assets, net	\$ 11,752,483	\$ 5,846,431	\$ 65	\$ 17,598,849

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 5 – Capital Assets – Continued

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 304,847
Support services	136,755
Non-instructional	5,223
Total depreciation expense - Governmental activities	<u>\$ 446,825</u>

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

Construction in progress is composed of:

	Spent to June 30, 2016	Remaining Commitment
Governmental Activities:		
New Intermediate School	<u>\$ 9,301,142</u>	<u>\$ 44,106</u>

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

Note 6 – Long-term Liabilities

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. General obligation bonds payable	\$ 9,555,000	\$	\$ 195,000	\$ 9,360,000	\$ 195,000
General obligation refunding bonds payable	650,000		210,000	440,000	215,000
Premiums/Discounts	191,386		12,943	178,443	
B. Limited obligation refunding bonds payable	1,035,000		245,000	790,000	255,000
Premiums/Discounts	16,201		5,400	10,801	
C. Three mill notes payable		360,000		360,000	178,000
D. Qualified school construction bonds payable	797,153		50,752	746,401	53,173
E. Compensated absences payable	93,286		16,686	76,600	
Total	<u>\$ 12,338,026</u>	<u>\$ 360,000</u>	<u>\$ 735,781</u>	<u>\$ 11,962,245</u>	<u>\$ 896,173</u>

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 6 – Long-term Liabilities - Continued

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Refunding Bonds					
Series 2009	3.5-4.0%	6/1/2009	6/18/2018	\$ 1,785,000	\$ 440,000
2. Capital Projects -					
Int. School	3.5-4.75%	8/1/2013	8/1/2033	9,750,000	9,360,000
Total				<u>\$ 11,535,000</u>	<u>\$ 9,800,000</u>

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

1. General obligation bond issue of June 1, 2009

Year Ending June 30	Principal	Interest	Total
2017	\$ 215,000	\$ 17,062	\$ 232,062
2018	225,000	9,000	234,000
Total	<u>\$ 440,000</u>	<u>\$ 26,062</u>	<u>\$ 466,062</u>

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

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 195,000	\$ 386,900	\$ 581,900
2018	195,000	380,075	575,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021	465,000	345,600	810,600
2022 – 2026	2,635,000	1,452,128	4,087,128
2027 – 2031	3,240,000	836,044	4,076,044
2032 – 2036	1,975,000	128,172	2,103,172
Total	<u>\$ 9,360,000</u>	<u>\$ 4,263,606</u>	<u>\$ 13,623,606</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 6 – Long-term Liabilities - Continued

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2017	\$ 410,000	\$ 403,962	\$ 813,962
2018	420,000	389,075	809,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021	465,000	345,600	810,600
2022 – 2026	2,635,000	1,452,128	4,087,128
2027 – 2031	3,240,000	836,044	4,076,044
2032 – 2036	1,975,000	128,172	2,103,172
Total	\$ 9,800,000	\$ 4,289,668	\$ 14,089,668

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2016, the amount of outstanding bonded indebtedness was equal to 13.87% 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					
Refunding bonds, Series 2009	3.0-3.5%	5/15/2009	2/1/2018	\$ 2,190,000	\$ 790,000
Total				\$ 2,190,000	\$ 790,000

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

Limited obligation bond issue of May 15, 2009:

Year Ending June 30	Principal	Interest	Total
2017	\$ 255,000	\$ 22,869	\$ 277,869
2018	535,000	14,175	549,175
Total	\$ 790,000	\$ 37,044	\$ 827,044

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 6 – Long-term Liabilities - Continued

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. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note	1.60%	8/14/2015	8/14/2017	\$ 360,000	\$ 360,000

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

Three mill notes payable issue of August 14, 2015:

Year Ending June 30	Principal	Interest	Total
2017	\$ 178,000	\$ 5,760	\$ 183,760
2018	182,000	2,912	184,912
Total	\$ 360,000	\$ 8,672	\$ 368,672

This debt will be retired from the Three Mill Fund.

D. Qualified school construction bonds payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Energy efficiency lease purchase	2.44-4.77%	6/29/2012	6/29/2027	\$ 935,961	\$ 746,401

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 6 – Long-term Liabilities - Continued

E. 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 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 – Defined Benefit Pension Plan

General Information about the Pension Plan

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

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007).

PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$1,120,334, \$1,114,247 and \$1,164,283, respectively, which equaled the required contributions for each year.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 8 – Defined Benefit Pension Plan – Continued

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

At June 30, 2016, the school district reported a liability of \$17,467,572 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was 0.113 percent, which was based on a measurement date of June 30, 2015. This was an decrease of 0.008 percent 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 \$1,328,751. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ 415,517	\$
Net difference between projected and actual earnings on pension plan investments	1,022,040	1,596,761
Changes of assumptions	1,504,771	
Changes in proportion and differences between District contributions and proportionate share of contributions		788,122
District contributions subsequent to the measurement date	1,120,334	
Total	<u>\$ 4,062,662</u>	<u>\$ 2,384,883</u>

\$1,120,334 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	\$ 154,483
2018	144,941
2019	2,511
2020	255,510
Total	<u>557,445</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2016

Note 8 – Defined Benefit Pension Plan - Continued

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.

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	100	%		

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	\$ 23,023,860	\$ 17,467,572	\$ 12,856,891

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 9 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
Unrestricted grants and contributions was overstated in prior year	\$ <u>19,283</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
Other governmental funds	Unrestricted grants and contributions was overstated in prior year	\$ <u>19,283</u>

Note 10 – Contingencies

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

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

Note 11 – Risk Management

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

Note 12 – Qualified School Construction Bonds

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2016

Note 12 – Qualified School Construction Bonds - Continued

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2016, the subsidy payments amounted to \$32,615.

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 53,173	\$ 35,603	\$ 88,776
2018	55,708	33,067	88,775
2019	58,367	30,410	88,777
2020	61,151	27,626	88,777
2021	64,068	24,709	88,777
2022 – 2026	369,200	74,681	443,881
2027 – 2031	84,734	4,042	88,776
Total	<u>\$ 746,401</u>	<u>\$ 230,138</u>	<u>\$ 976,539</u>

Note 13 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(13,140,069) includes the effect of deferring the recognition of expense resulting from a deferred outflow of pensions and the effect of deferring the recognition of revenue resulting from a deferred inflow of pensions. The \$4,062,662 balance of the deferred outflow of resources, at June 30, 2016 will be recognized as an expense and will decrease the unrestricted net position over the next four years. The \$2,384,883 balance of the deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next three years.

Note 16 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Holly Springs School District evaluated the activity of the district through March 15, 2017 (the date the financial statements were available to be issued) and determined that no subsequent event has occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Budgeted Amounts			Actual (GAAP Basis)	Variances	
					Positive (Negative)	
	Original	Final	Original to Final		Final to Actual	
Revenues:						
Local sources	\$ 3,467,424	\$ 3,628,394	\$ 3,628,394	\$ 160,970	\$ -	
State sources	6,970,487	7,108,659	7,101,827	138,172	(6,832)	
Federal sources	413,040	280,387	280,387	(132,653)	-	
Total Revenues	10,850,951	11,017,440	11,010,608	166,489	(6,832)	
Expenditures:						
Instruction	6,059,472	5,705,586	5,705,586	353,886	-	
Support services	5,146,773	4,444,238	4,444,238	702,535	-	
Total Expenditures	11,206,245	10,149,824	10,149,824	1,056,421	-	
Excess (Deficiency) of Revenues over (under) Expenditures	(355,294)	867,616	860,784	1,222,910	(6,832)	
Other Financing Sources (Uses):						
Operating transfers in	1,748,449	1,762,733	24,594	14,284	(1,738,139)	
Operating transfers out	(2,097,974)	(2,271,784)	(528,645)	(173,810)	1,743,139	
Other financing uses	(5,000)			5,000	-	
Total Other Financing Sources (Uses)	(354,525)	(509,051)	(504,051)	(154,526)	5,000	
Net Change in Fund Balances	(709,819)	358,565	356,733	1,068,384	(1,832)	
Fund Balances:						
July 1, 2015	2,313,431	2,621,121	2,621,121	307,690	-	
June 30, 2016	\$ 1,603,612	\$ 2,979,686	\$ 2,977,854	\$ 1,376,074	\$ (1,832)	

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

HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I-A Basic Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,415,228	\$ 1,058,801	\$ 1,058,801	\$ (356,427)	\$ -
Total Revenues	1,415,228	1,058,801	1,058,801	(356,427)	-
Expenditures:					
Instruction	478,326	448,896	448,896	29,430	-
Support services	834,802	528,384	528,384	306,418	-
Noninstructional services	79,882	71,303	71,303	8,579	-
Total Expenditures	1,393,010	1,048,583	1,048,583	344,427	-
Excess (Deficiency) of Revenues over (under) Expenditures	22,218	10,218	10,218	(12,000)	-
Other Financing Sources (Uses):					
Other financing sources	(22,218)	(10,218)	(10,218)	12,000	-
Total Other Financing Sources (Uses)	(22,218)	(10,218)	(10,218)	12,000	-
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.

HOLLY SPRINGS SCHOOL DISTRICT**Required Supplementary Information****SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****PERS****Last 10 Fiscal Years***

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	\$ 17,467,572	14,687,185
District's proportionate share of the net pension liability (asset)	0.113%	0.121%
District's covered-employee payroll	7,074,584	7,392,260
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	246.91%	198.68%
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.

HOLLY SPRINGS SCHOOL DISTRICT**Required Supplementary Information****SCHEDULE OF DISTRICT CONTRIBUTIONS****PERS****Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,120,334	1,114,247
Contributions in relation to the contractually required contribution	1,120,334	1,114,247
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
District's covered-employee payroll	7,113,226	7,074,584
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Required Supplementary Information
For Year Ended June 30, 2016

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

None

(2) Changes of assumptions

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

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SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 303,869
National school lunch program	10.555	692,767
Summer food service program for children	10.559	38,335
Total child nutrition cluster		<u>1,034,971</u>
Fresh Fruit and Vegetable Program	10.582	<u>36,697</u>
Total passed-through Mississippi Department of Education		<u>1,071,668</u>
Total U.S. Department of Agriculture		<u>1,071,668</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	<u>48,344</u>
Total U.S. Department of Defense		<u>48,344</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>202,385</u>
Total Federal Communications Commission		<u>202,385</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to state	84.126	<u>686</u>
Total passed-through Mississippi Department of Rehabilitation Services		<u>686</u>
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	24,236
Improving teacher quality-State Grants	84.367	166,562
Title I grants to local educational agencies	84.010	<u>1,058,801</u>
Subtotal		<u>1,249,599</u>
Special education cluster:		
Special education - grants to states	84.027	451,096
Special education - preschool grants	84.173	<u>32,183</u>
Total special education cluster		<u>483,279</u>
Total passed-through Mississippi Department of Education		<u>1,732,878</u>
Total U.S. Department of Education		<u>1,733,564</u>

-Continued-

HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

-Continued-

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medicaid cluster:		
Medical assistance program	93.778	8,058
Total Medicaid cluster		8,058
Total passed-through Mississippi Department of Education		8,058
Total U.S. Department of Health and Human Services		8,058
Total for All Federal Awards		\$ 3,064,019

NOTES TO SCHEDULE

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

HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2016

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 9,796,512	7,182,632	692,906	788,202	1,132,772
Other	11,292,482	1,475,222	211,099	18,414	9,587,747
Total	<u>\$ 21,088,994</u>	<u>8,657,854</u>	<u>904,005</u>	<u>806,616</u>	<u>10,720,519</u>
Total number of students *	<u>1,456</u>				
Cost per student	<u>\$ 14,484</u>	<u>5,946</u>	<u>621</u>	<u>554</u>	<u>7,363</u>

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

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

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

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

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

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

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OTHER INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 3,628,394	\$ 3,519,937	\$ 3,447,817	\$ 3,249,040
State sources	7,101,827	6,842,583	6,730,403	6,642,775
Federal sources	280,387	160,294	107,800	178,895
Total Revenues	11,010,608	10,522,814	10,286,020	10,070,710
Expenditures:				
Instruction	5,705,586	5,795,258	5,658,816	5,723,902
Support services	4,444,238	3,975,309	4,486,840	4,310,462
Interest			2,315	
Total Expenditures	10,149,824	9,770,567	10,147,971	10,034,364
Excess (Deficiency) of Revenues over (under) Expenditures	860,784	752,247	138,049	36,346
Other Financing Sources (Uses):				
Insurance recovery		11,219	242,907	
Sale of transportation equipment		9,200		
Operating transfers in	24,594	29,049	150,562	73,521
Operating transfers out	(528,645)	(510,870)	(580,048)	(675,019)
Total Other Financing Sources (Uses)	(504,051)	(461,402)	(186,579)	(601,498)
Net Change in Fund Balances	356,733	290,845	(48,530)	(565,152)
Fund Balances:				
Beginning of period, as previously reported	2,621,121	2,330,276	2,389,781	2,954,933
Prior period adjustments			(10,975)	
Beginning of period, as restated	2,621,121	2,330,276	2,378,806	2,954,933
End of Period	\$ 2,977,854	\$ 2,621,121	\$ 2,330,276	\$ 2,389,781

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 4,651,552	\$ 4,542,701	\$ 4,444,324	\$ 3,746,036
State sources	7,713,027	7,418,826	7,368,059	7,270,316
Federal sources	3,118,346	3,060,657	3,100,775	3,094,281
Total Revenues	15,482,925	15,022,184	14,913,158	14,110,633
Expenditures:				
Instruction	7,006,701	7,181,611	7,102,524	7,194,141
Support services	5,656,459	5,244,191	5,868,071	5,726,199
Noninstructional services	1,035,779	1,059,415	1,037,451	1,038,082
Facilities acquisition and construction	6,196,390	2,766,792	566,437	918,531
Debt service:				
Principal	700,752	683,441	471,236	723,875
Interest	487,156	717,182	126,743	143,261
Other	5,757	6,790	287,481	3,300
Total Expenditures	21,088,994	17,659,422	15,459,943	15,747,389
Excess (Deficiency) of Revenues over (under) Expenditures	(5,606,069)	(2,637,238)	(546,785)	(1,636,756)
Other Financing Sources (Uses):				
Bonds and notes issued	360,000		9,750,000	
Insurance recovery		11,219	242,907	
Premiums on bonds and refunding bonds issued			190,697	
Sale of transportation equipment		9,200		
Operating transfers in	553,239	892,919	747,861	777,702
Operating transfers out	(553,239)	(892,919)	(747,861)	(777,702)
Total Other Financing Sources (Uses)	360,000	20,419	10,183,604	-
Net Change in Fund Balances	(5,246,069)	(2,616,819)	9,636,819	(1,636,756)
Fund Balances:				
Beginning of period, as previously reported	9,992,165	12,610,584	2,991,308	4,631,693
Prior period adjustments	(19,283)		(10,975)	
Beginning of period, as restated	9,972,882	12,610,584	2,980,333	4,631,693
Increase (Decrease) in reserve for inventory	(1,595)	(1,600)	(6,568)	(3,629)
End of Period	\$ 4,725,218	\$ 9,992,165	\$ 12,610,584	\$ 2,991,308

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Holly Springs School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holly Springs School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Holly Springs School District's basic financial statements and have issued our report thereon dated March 15, 2017.

Internal Control Over Financial Reporting

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

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

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

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

- Continued -

Compliance and Other Matters

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

Purpose of this Report

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

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 15, 2017

M. M. WINKLER & ASSOCIATES, PLLC

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

Superintendent and School Board
Holly Springs School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Holly Springs School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of 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 Holly Springs School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

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

- Continued -

Report on Internal Control Over Compliance

Management of Holly Springs School District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Holly Springs School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Holly Springs School District's internal control over compliance.

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

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

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

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 15, 2017

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

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

Superintendent and School Board
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2016, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated March 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

-Continued-

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

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 15, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 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? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | None reported |
| 3. Noncompliance material to financial statements noted? (Yes/No) | | |
| | | No |

Federal Awards:

- | | | |
|--|---|---|
| 4. | Internal control over major programs: | |
| a. | Material weakness(es) identified? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | 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)? (Yes/No) | | |
| | | No |
| 7. Identification of major programs: | | |
| | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| | 10.553, 10.555, 10.559 | Child Nutrition Cluster |
| | 32.xxx | The Schools and Libraries Program of the Universal Service Fund |
| 8. Dollar threshold used to distinguish between type A and type B programs: | | |
| | | \$750,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | | |
| | | No |

HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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