



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Holmes County School District
Audited Financial Statements
For the Year Ended June 30, 2016

Fortenberry & Ballard, PC
Certified Public Accountants

**Holmes County School District
TABLE OF CONTENTS**

	PAGE #
INDEPENDENT AUDITOR’S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION	4
MANAGEMENT’S DISCUSSION AND ANALYSIS	8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Exhibit A - Statement of Net Position	21
Exhibit B - Statement of Activities	22
Governmental Funds Financial Statements	
Exhibit C - Balance Sheet	24
Exhibit C-1 - Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	26
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	28
Exhibit D-1 - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	30
Fiduciary Funds Financial Statements	
Exhibit E - Statement of Fiduciary Assets and Liabilities	31
Notes to the Financial Statements	33
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	62
Budgetary Comparison Schedule - Title I Fund	63
Schedule of the District’s Proportionate Share of the Net Pension Liability	64
Schedule of District Contributions	65
Notes to the Required Supplementary Information	67
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	69
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	70
Notes to the Supplementary Information	71
OTHER INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years	73
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years	74
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	76
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance	78
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	81
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	84
AUDITEE’S CORRECTIVE ACTION PLAN	88

FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County 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 Holmes County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Holmes County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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 Holmes County School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 8 to 19 and 60 to 65, 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 Holmes County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017, on our consideration of the Holmes County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holmes County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 22, 2017

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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

FINANCIAL HIGHLIGHTS

- Total net position for 2016 increased \$1,177,861, including a prior period adjustment of (\$27,024), which represents a 10% increase from fiscal year 2015. Total net position for 2015 decreased \$28,468,280, including a prior period adjustment of (\$29,884,031), which represents a 171% decrease from fiscal year 2014.
- General revenues amounted to \$20,543,269 and \$20,213,798, or 74% and 74% 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 \$7,157,210, or 26% of total revenues for 2016, and \$7,098,054, or 26% of total revenues for 2015.
- The District had \$26,495,594 and \$25,896,101 in expenses for fiscal years 2016 and 2015; only \$7,157,210 for 2016 and \$7,098,054 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,543,269 for 2016 and \$20,213,798 for 2015 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$19,332,026 in revenues and \$17,547,183 in expenditures for 2016, and \$19,111,409 in revenues and \$18,263,945 in expenditures for 2015. The General Fund's fund balance increased by \$1,522,570, including a prior period adjustment of \$5,781, from 2015 to 2016, and decreased by \$505,325, including a prior period adjustment of \$127,725, from 2014 to 2015.
- Capital assets, net of accumulated depreciation, increased by \$279,890 for 2016 and increased by \$3,567 for 2015. The increase for 2016 was due primarily to additions to construction in progress and mobile equipment.
- Long-term debt decreased by \$595,000 for 2016 and decreased by \$575,000 for 2015. This decrease for 2016 was due primarily to principal payments on long-term debt. The liability for compensated absences decreased by \$1,608 for 2016 and decreased by \$29,467 for 2015.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net Position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$10,636,834 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.

Holmes County 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	\$ 5,534,099	4,863,930	14%
Restricted assets	2,149,429	1,611,254	33%
Capital assets, net	19,340,593	19,060,703	1%
Total assets	<u>27,024,121</u>	<u>25,535,887</u>	6%
 Deferred outflows of resources	 <u>6,046,433</u>	 <u>2,683,753</u>	 125%
 Current liabilities	 164,650	 283,158	 (42)%
Long-term debt outstanding	6,925,257	7,521,865	(8)%
Net pension liability	35,263,008	28,148,414	25%
Total liabilities	<u>42,352,915</u>	<u>35,953,437</u>	18%
 Deferred inflows of resources	 <u>1,354,473</u>	 <u>4,080,898</u>	 (67)%
 Net position:			
Net investment in capital assets	12,618,975	11,645,703	8%
Restricted	4,693,332	2,503,179	87%
Unrestricted	(27,949,141)	(25,963,577)	(8)%
Total net position (deficit)	<u>\$ (10,636,834)</u>	<u>(11,814,695)</u>	10%

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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)	\$ (27,949,141)
Less unrestricted deficit in net position resulting from recognition of the net pension, including the deferred outflows and deferred inflows related to pensions	<u>30,571,048</u>
Unrestricted net position, exclusive of the net pension liability effect	<u><u>2,621,907</u></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 \$279,890.
- The principal retirement of \$595,000 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 \$27,700,479 and \$27,311,852, respectively. The total cost of all programs and services was \$26,495,594 for 2016 and \$25,896,101 for 2015.

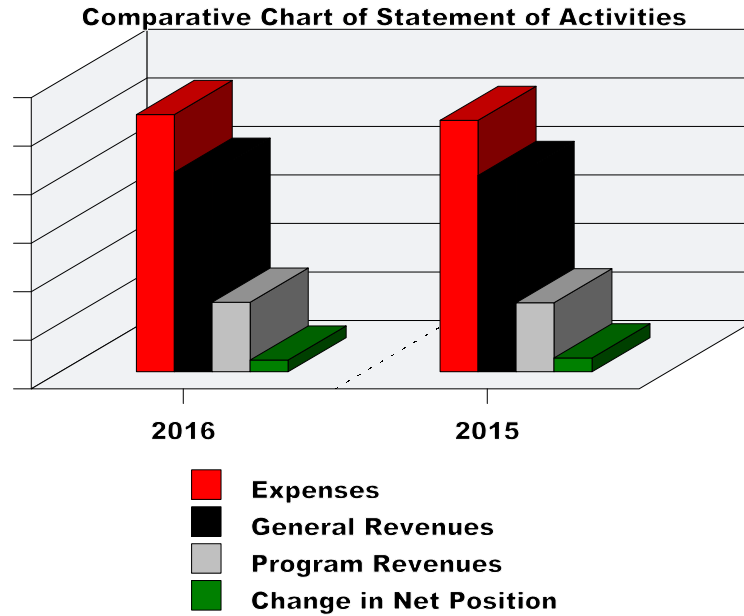
Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 287,375	194,807	48%
Operating grants and contributions	6,869,835	6,903,247	0%
General revenues:			
Property taxes	4,692,160	4,426,313	6%
Grants and contributions not restricted	14,889,138	14,761,280	1%
Unrestricted investment earnings	6,119	43,793	(86)%
Sixteenth section sources	749,966	812,920	(8)%
Other	205,886	169,492	21%
Total revenues	<u>27,700,479</u>	<u>27,311,852</u>	1%
Expenses:			
Instruction	11,120,751	10,882,352	2%
Support services	9,755,443	10,630,836	(8)%
Non-instructional	2,069,329	2,116,073	(2)%
Sixteenth section	114,810	142,150	(19)%
Pension expense	3,198,717	1,906,174	68%
Interest on long-term liabilities	236,544	218,516	8%
Total expenses	<u>26,495,594</u>	<u>25,896,101</u>	2%
Increase (Decrease) in net position	<u>1,204,885</u>	<u>1,415,751</u>	(15)%
Net Position (Deficit), July 1, as previously reported	(11,814,695)	16,653,585	(171)%
Prior period adjustment	<u>(27,024)</u>	<u>(29,884,031)</u>	100%
Net Position (Deficit), July 1, as restated	<u>(11,841,719)</u>	<u>(13,230,446)</u>	10%
Net Position (Deficit), June 30	<u>\$ (10,636,834)</u>	<u>(11,814,695)</u>	10%

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016



Governmental activities

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

Table 3
Net Cost of Governmental Activities

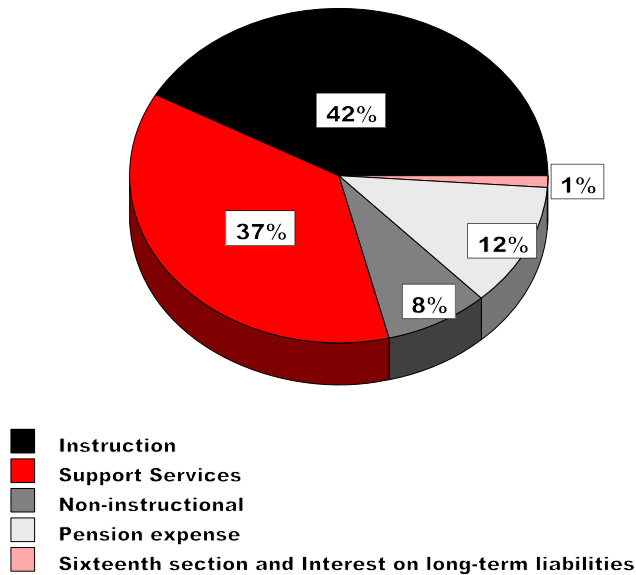
	<u>Total Expenses</u>		
	2016	2015	Percentage Change
Instruction	\$ 11,120,751	10,882,352	2%
Support services	9,755,443	10,630,836	(8)%
Non-instructional	2,069,329	2,116,073	(2)%
Sixteenth section	114,810	142,150	(19)%
Pension expense	3,198,717	1,906,174	68%
Interest on long-term liabilities	236,544	218,516	8%
Total expenses	\$ 26,495,594	25,896,101	2%

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Net (Expense) Revenue

	2016	2015	Percentage Change
Instruction	\$ (9,503,897)	(9,036,017)	(5)%
Support services	(6,535,680)	(7,629,677)	14%
Non-instructional	221,459	134,487	65%
Sixteenth section	(85,005)	(142,150)	40%
Pension expense	(3,198,717)	(1,906,174)	(68)%
Interest on long-term liabilities	(236,544)	(218,516)	(8)%
Total net (expense) revenue	\$ (19,338,384)	(18,798,047)	(3)%

Chart of Expenses as per Statement of Activities



- Net cost of governmental activities (\$19,338,384 for 2016 and \$18,798,047 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$4,692,160 for 2016 and \$4,426,313 for 2015) and state and federal revenues of (\$14,889,138 for 2016 and \$14,761,280 for 2015).
- Investment earnings amounted to \$6,119 for 2016 and \$43,793 for 2015.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 \$7,536,399, an increase of \$1,319,615, which includes a decrease in inventory of \$1,657 and a prior period adjustment of (\$27,024). \$2,793,940, or 37% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, or assigned to specific purposes within the general fund. The remaining fund balance of \$4,742,459 or 63% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,522,570, which includes a prior period adjustment of \$5,781. The fund balance of Other Governmental Funds showed a decrease in the amount of \$533,212, which includes a prior period adjustment of (\$37) and a decrease in inventory of \$1,657. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Title I Fund	no increase or decrease
QZAB Debt Retirement Fund	\$ 246,178
Sixteenth Section Principal Fund	\$ 84,079

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 Holmes County 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.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$33,120,646, including land, school buildings, building improvements, mobile equipment, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$841,991 from 2015. Total accumulated depreciation as of June 30, 2016, was \$13,780,053, and total depreciation expense for the year was \$772,119, resulting in total net capital assets of \$19,340,593.

Table 4
Capital Assets, Net Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 256,168	256,168	0%
Construction in progress	0	138,579	(100)%
Buildings	16,325,793	16,448,626	(1)%
Building improvements	229,242	251,476	(9)%
Improvements other than buildings	1,380,601	809,437	71%
Mobile equipment	934,948	849,356	10%
Furniture and equipment	213,841	307,061	(30)%
Total	\$ <u>19,340,593</u>	<u>19,060,703</u>	<u>1%</u>

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

Debt Administration. At June 30, 2016, the District had \$6,925,257 in outstanding long-term debt, of which \$550,000 is due within one year. The liability for compensated absences decreased \$1,608 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 0	60,000	(100)%
Limited obligation bonds payable	1,120,000	1,655,000	(32)%
Qualified zone academy bonds payable	2,500,000	2,500,000	0%
Qualified school construction bonds payable	3,200,000	3,200,000	0%
Compensated absences payable	105,257	106,865	(2)%
Total	\$ <u>6,925,257</u>	<u>7,521,865</u>	<u>(8)%</u>

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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

CURRENT ISSUES

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

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

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

Enrollment for the 2015-2016 year remained about the same with 2,887 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Holmes County School District, PO Box 630, Lexington, MS 39095.

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT**STATEMENT OF NET POSITION**

JUNE 30, 2016

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 4,317,200
<i>Due from other governments</i>	1,163,945
<i>Inventories</i>	52,954
<i>Restricted assets</i>	2,149,429
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	256,168
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	16,325,793
<i>Building improvements</i>	229,242
<i>Improvements other than buildings</i>	1,380,601
<i>Mobile equipment</i>	934,948
<i>Furniture and equipment</i>	213,841
Total Assets	<u>27,024,121</u>
Deferred Outflows of Resources	
Pension related	6,046,433
Total Deferred Outflows of Resources	<u>6,046,433</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	147,129
<i>Interest payable on long-term liabilities</i>	17,521
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	550,000
Long-term liabilities (due beyond one year):	
<i>Capital related liabilities</i>	6,270,000
<i>Non-capital related liabilities</i>	105,257
<i>Net pension liability</i>	35,263,008
Total Liabilities	<u>42,352,915</u>
Deferred Inflows of Resources	
Pension related	1,354,473
Total Deferred Inflows of Resources	<u>1,354,473</u>
Net Position:	
Net Investment in Capital Assets	12,618,975
Restricted For:	
Expendable:	
School-based activities	539,989
Debt service	2,617,351
Capital projects	80,484
Forestry improvements	80,854
Unemployment benefits	149,439
Nonexpendable:	
Sixteenth section	1,225,215
Unrestricted	(27,949,141)
Total Net Position (Deficit)	<u>\$ (10,636,834)</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Changes in
			Contributions	Net Position
				Governmental
				Activities
Governmental Activities:				
<i>Instruction</i>	11,120,751	185,414	1,431,440	(9,503,897)
<i>Support services</i>	9,755,443	--	3,219,763	(6,535,680)
<i>Noninstructional services</i>	2,069,329	72,156	2,218,632	221,459
<i>Sixteenth section</i>	114,810	29,805	--	(85,005)
<i>Pension expense</i>	3,198,717	--	--	(3,198,717)
<i>Interest on long-term liabilities</i>	236,544	--	--	(236,544)
Total Governmental Activities	<u>\$ 26,495,594</u>	<u>\$ 287,375</u>	<u>\$ 6,869,835</u>	<u>(19,338,384)</u>
General Revenues:				
Taxes:				
<i>General purpose levies</i>				4,430,302
<i>Debt purpose levies</i>				261,858
Unrestricted grants and contributions:				
<i>State</i>				14,738,944
<i>Federal</i>				150,194
Unrestricted investment earnings				6,119
Sixteenth section sources				749,966
Other				205,886
Total General Revenues				<u>20,543,269</u>
Change in Net Position				<u>1,204,885</u>
Net Position (Deficit) - Beginning, as previously reported				(11,814,695)
Prior Period Adjustments				(27,024)
Net Position (Deficit) - Beginning, as restated				(11,841,719)
Net Position (Deficit) - Ending				<u>\$ (10,636,834)</u>

The accompanying notes are an integral part of this statement.

This page left blank intentionally.

HOLMES COUNTY SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2016

	General Fund	Title I Fund
Assets		
<i>Cash and cash equivalents</i>	\$ 3,173,397	\$ --
<i>Cash with fiscal agents</i>	--	--
<i>Investments</i>	--	--
<i>Due from other governments</i>	266,217	292,831
<i>Due from other funds</i>	455,436	--
<i>Advances to other funds</i>	4,050	--
<i>Inventories</i>	--	--
Total Assets	<u>\$ 3,899,100</u>	<u>\$ 292,831</u>
Liabilities and Fund Balances		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 123,395	\$ 10,489
<i>Due to other funds</i>	--	282,342
<i>Advances from other funds</i>	950,059	--
Total Liabilities	<u>1,073,454</u>	<u>292,831</u>
Fund Balances:		
Nonspendable:		
<i>Inventory</i>	--	--
<i>Advances</i>	--	--
<i>Permanent fund principal</i>	--	--
Restricted:		
<i>Unemployment benefits</i>	--	--
<i>Forestry improvements</i>	--	--
<i>Capital improvements</i>	--	--
<i>Debt service</i>	--	--
<i>Grant activities</i>	--	--
<i>Food service</i>	--	--
Assigned:		
Activity funds	31,706	--
Unassigned	<u>2,793,940</u>	<u>--</u>
Total Fund Balances	<u>2,825,646</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 3,899,100</u>	<u>\$ 292,831</u>

The accompanying notes are an integral part of this statement.

QZAB Debt Retirement Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 275,056	\$ 1,242,185	\$ 4,690,638
11,767	--	7,390	19,157
1,560,231	--	196,603	1,756,834
--	--	599,147	1,158,195
--	--	15,322	470,758
--	950,059	--	954,109
--	--	52,954	52,954
<u>\$ 1,571,998</u>	<u>\$ 1,225,115</u>	<u>\$ 2,113,601</u>	<u>\$ 9,102,645</u>
\$ --	\$ --	\$ 13,245	\$ 147,129
--	--	186,716	469,058
--	--	--	950,059
<u>--</u>	<u>--</u>	<u>199,961</u>	<u>1,566,246</u>
--	--	52,954	52,954
--	950,059	--	950,059
--	275,056	--	275,056
--	--	149,439	149,439
--	--	80,854	80,854
--	--	80,484	80,484
1,571,998	--	1,062,874	2,634,872
--	--	104,453	104,453
--	--	382,582	382,582
--	--	--	31,706
--	--	--	2,793,940
<u>1,571,998</u>	<u>1,225,115</u>	<u>1,913,640</u>	<u>7,536,399</u>
<u>\$ 1,571,998</u>	<u>\$ 1,225,115</u>	<u>\$ 2,113,601</u>	<u>\$ 9,102,645</u>

HOLMES COUNTY SCHOOL DISTRICT**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total fund balances for governmental funds	\$ 7,536,399
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	19,340,593
Liabilities due in one year are recognized in the SNP but not in the funds.	(550,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,270,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(17,521)
Payables for compensated absences not due in the current period are not reported in the funds.	(105,257)
Recognition of the School District's proportionate share of the net pension liability is not reported in the funds.	(35,263,008)
Deferred Inflows of Resources related to the pension plan are not reported in the funds.	(1,354,473)
Deferred Outflows of Resources related to the pension plan are not reported in the funds.	6,046,433
Net position of governmental activities	\$ <u>(10,636,834)</u>

The accompanying notes are an integral part of this statement.

This page left blank intentionally.

HOLMES COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Title I Fund
Revenues:		
Local sources	\$ 4,730,612	\$ --
State sources	13,648,123	--
Federal sources	330,454	2,513,532
Sixteenth section sources	622,837	--
Total Revenues	<u>19,332,026</u>	<u>2,513,532</u>
Expenditures:		
Instruction	9,667,570	968,083
Support services	7,581,112	1,546,278
Noninstructional services	13,285	52,220
Sixteenth section	84,330	--
Facilities acquisition and construction	25,136	--
Debt service:		
Principal	--	--
Interest	172,000	--
Other	3,750	--
Total Expenditures	<u>17,547,183</u>	<u>2,566,581</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,784,843	(53,049)
Other Financing Sources (Uses):		
Insurance recovery	8,474	--
Payment to QZAB and QSCB escrow agent	--	--
Payment to QZAB and QSCB debt escrow agent	--	--
Transfers in	58,493	61,151
Other financing sources	--	--
Transfers out	(335,021)	(8,102)
Total Other Financing Sources (Uses)	<u>(268,054)</u>	<u>53,049</u>
Net change in Fund Balances	1,516,789	--
Fund Balances:		
July 1, 2015, as previously reported	1,303,076	--
Prior period adjustments	5,781	--
July 1, 2015, as restated	<u>1,308,857</u>	<u>--</u>
Increase (decrease) in inventory	--	--
June 30, 2016	<u>\$ 2,825,646</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

QZAB Debt Retirement Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,625	\$ --	\$ 322,308	\$ 5,054,545
--	--	1,774,911	15,423,034
--	--	3,491,953	6,335,939
--	127,509	29,425	779,771
<u>1,625</u>	<u>127,509</u>	<u>5,618,597</u>	<u>27,593,289</u>
--	--	1,224,662	11,860,315
--	--	1,506,480	10,633,870
--	--	2,017,056	2,082,561
--	--	30,480	114,810
--	--	805,183	830,319
--	--	595,000	595,000
--	--	62,440	234,440
2,117	--	3,474	9,341
<u>2,117</u>	<u>--</u>	<u>6,244,775</u>	<u>26,360,656</u>
(492)	127,509	(626,178)	1,232,633
--	--	--	8,474
178,351	--	59,189	237,540
--	--	(237,540)	(237,540)
--	--	506,792	626,436
100,987	--	6,202	107,189
--	(43,330)	(239,983)	(626,436)
<u>279,338</u>	<u>(43,330)</u>	<u>94,660</u>	<u>115,663</u>
278,846	84,179	(531,518)	1,348,296
1,325,820	1,141,036	2,446,852	6,216,784
(32,668)	(100)	(37)	(27,024)
<u>1,293,152</u>	<u>1,140,936</u>	<u>2,446,815</u>	<u>6,189,760</u>
--	--	(1,657)	(1,657)
<u>\$ 1,571,998</u>	<u>\$ 1,225,115</u>	<u>\$ 1,913,640</u>	<u>\$ 7,536,399</u>

HOLMES COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016*

Net change in fund balances - total governmental funds	\$ 1,348,296
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,064,555
The depreciation of capital assets used in governmental activities is not reported in the funds.	(772,119)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(12,546)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	595,000
(Increase) decrease in accrued interest from beginning of period to end of period.	7,237
Change in inventory affects fund balance in the funds but expense in the SOA.	(1,657)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	1,608
GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	131,433
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	2,173,228
The School District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	874,290
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(4,204,440)
Change in net position of governmental activities	\$ <u>1,204,885</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency Funds
Assets	
<i>Cash and cash equivalents</i>	\$ 867,891
Total Assets	<u>\$ 867,891</u>
Liabilities	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 860,964
<i>Due to student clubs</i>	1,177
<i>Due to other funds</i>	1,700
<i>Advances from other funds</i>	4,050
Total Liabilities	<u>\$ 867,891</u>

The accompanying notes are an integral part of this statement.

Holmes County School District

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

Holmes County School District

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

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

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

Holmes County School District

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

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

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

QZAB Debt Retirement Fund - This is a debt service fund that accounts for annual deposits to be paid to the Qualified Zone Academy Bond Debt.

Sixteenth Section Principal Fund - This is a permanent fund used to account for the nonexpendable resources generated from the sale of non-renewable resources on sixteenth section lands.

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

The District's fiduciary funds include the following:

Holmes County School District

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

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related

Holmes County School District

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

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

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

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

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

Holmes County School District

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

Holmes County School District

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

either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond and Qualified School Construction Bonds sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 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

Holmes County School District

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

activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

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

The following schedule details the capitalization thresholds:

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

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

7. Deferred outflows/inflows of resources

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

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

Holmes County School District

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

acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 13 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/ Premiums

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public 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.

Holmes County School District

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

11. Fund Balances

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

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

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

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

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

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

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

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it

Holmes County School District

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

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 7% of actual received revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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

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

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

Holmes County School District

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

income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,690,638 and \$867,891, 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. As of June 30, 2016, none of the district's bank balance of \$6,441,737 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$19,157.

Investments

As of June 30, 2016, the district had the following investments:

Investment Type	Rating	Maturities (in years)	Fair Value
US Government Securities	No Rating	1-5	\$ <u>1,756,834</u>

The School Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable in puts.

The School Board has the following recurring fair value measurements as of June 30, 2016:

- Level 1 type of investments of \$1,756,834 are valued using quoted market prices (Level 1 inputs)

Holmes County School District

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

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2016, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

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 Fund	\$ 282,342
	Fiduciary Funds	1,700
	Other Governmental Funds	171,394
Other Governmental Funds	Other Governmental Funds	15,322
Total		\$ <u>470,758</u>

The purpose of the Due From/To Other Funds was to cover deficit cash balances at year end.

Holmes County School District

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

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Fiduciary Funds	\$ 4,050
Sixteenth Section Principal Fund	General Fund	950,059
Total		\$ <u>954,109</u>

The sixteenth section principal loans payable are not reflected on the Statement of net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 51,939	38,002	89,941
2018	54,016	35,925	89,941
2019	56,177	33,764	89,941
2020	58,424	31,517	89,941
2021	60,761	29,180	89,941
2022 - 2026	342,265	107,440	449,705
2027 - 2030	326,477	33,287	359,764
Total	\$ <u>950,059</u>	<u>309,115</u>	<u>1,259,174</u>

Advances totaling \$4,050 were for cash flow purposes.

This note shall be payable at the Office of the Superintendent of Education of the Holmes County School District, or at such other place as the holder hereof may designate in writing. The notes may be paid in whole or in part at any time at the option of the District.

Holmes County School District

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

C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Title I Fund	\$ 8,102
	Sixteenth Section Principal Fund	43,330
	Other Governmental Funds	7,061
Title I Fund	Other Governmental Funds	61,151
Other Governmental Funds	General Fund	335,021
	Other Governmental Funds	171,771
Total		\$ <u>626,436</u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

Note 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$275,056, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$5,000 of the MAEP Limited Obligation Bond Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$11,767 and \$1,560,231, respectively, of the QZAB Debt Retirement Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$2,390 and \$196,603, respectively, of the QSCB 2010 Debt retirement Fund.

In addition, the restricted assets represent the cash balance totaling \$98,382, of the QSCB 2012 Debt retirement Fund.

Holmes County School District

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

Note 5 - Capital Assets

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

	Balance 7-1-2015	Increases	Decreases	Completed Construction	Adjustments	Balance 6-30-2016
<u>Non-depreciable capital assets:</u>						
Land	\$ 256,168					256,168
Construction in progress	138,579	830,319		(968,898)		0
Total non-depreciable capital assets	394,747	830,319	0	(968,898)	0	256,168
<u>Depreciable capital assets:</u>						
Buildings	23,376,289			322,039	874	23,699,202
Buildings improvements	583,157					583,157
Improvements other than buildings	2,046,473			646,859		2,693,332
Mobile equipment	3,888,890	234,236	124,304			3,998,822
Furniture and equipment	1,989,099		11,599		(87,535)	1,889,965
Total depreciable capital assets	31,883,908	234,236	135,903	968,898	(86,661)	32,864,478
<u>Less accumulated depreciation for:</u>						
Buildings	6,927,663	445,746				7,373,409
Building improvements	331,681	22,234				353,915
Improvement other than buildings	1,237,036	75,695				1,312,731
Mobile equipment	3,039,534	136,214	111,874			3,063,874
Furniture and equipment	1,682,038	92,230	11,483		(86,661)	1,676,124
Total accumulated depreciation	13,217,952	772,119	123,357	0	(86,661)	13,780,053
Total depreciable capital assets, net	18,665,956	(537,883)	12,546	968,898	0	19,084,425
Governmental activities capital assets, net	\$ 19,060,703	292,436	12,546	0	0	19,340,593

Adjustments were made to properly present capital assets.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 540,483
Support services	154,424
Non-instructional	77,212
Total depreciation expense	\$ 772,119

Holmes County School District

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

Note 6 - Long-term liabilities

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

	Balance 7-1-2015	Reductions	Balance 6-30-2016	Amount due within one year
A. General obligation bonds payable	\$ 60,000	60,000	0	
B. Limited obligation bonds payable	1,655,000	535,000	1,120,000	550,000
C. Qualified zone academy bonds payable	2,500,000		2,500,000	
D. Qualified school construction bonds payable	3,200,000		3,200,000	
E. Compensated absences payable	106,865	1,608	105,257	
Total	\$ 7,521,865	596,608	6,925,257	550,000

A. General obligation bonds payable

This debt was paid off and retired from the District Maintenance Fund and the Buildings and Buses Fund.

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	3.0-4.0%	10-01-09	02-01-18	\$ <u>4,395,000</u>	<u>1,120,000</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 550,000	42,050	592,050
2018	570,000	22,800	592,800
Total	\$ <u>1,120,000</u>	<u>64,850</u>	<u>1,184,850</u>

This debt will be retired from the MAEP Retirement Fund.

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

Holmes County School District

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

C. Qualified zone academy bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	0.00%	07-23-08	07-15-20	\$ <u>2,500,000</u>	<u>2,500,000</u>

D. Qualified school construction bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds, Series 2010	0.40%	12-17-10	12-01-25	\$ 2,200,000	2,200,000
Qualified school construction bonds, Series 2012	0.17%	12-07-12	12-15-27	<u>1,000,000</u>	<u>1,000,000</u>
Total				\$ <u>3,200,000</u>	<u>3,200,000</u>

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

1. Qualified school construction bonds series 2010:

Year Ending June 30	Principal	Interest	Total
2017	\$	132,000	132,000
2018		132,000	132,000
2019		132,000	132,000
2020		132,000	132,000
2021		132,000	132,000
2022 - 2026	<u>2,200,000</u>	<u>660,000</u>	<u>2,860,000</u>
Total	\$ <u>2,200,000</u>	<u>1,320,000</u>	<u>3,520,000</u>

This debt will be retired from the QSCB 2012 Debt Retirement Fund.

Holmes County School District

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

2. Qualified school construction bonds series 2012:

Year Ending June 30		Principal	Interest	Total
2017	\$		1,700	1,700
2018			1,700	1,700
2019			1,700	1,700
2020			1,700	1,700
2021			1,700	1,700
2022 - 2026			8,500	8,500
2027 - 2028		802,000	3,400	805,400
Total	\$	802,000	20,400	822,400

This debt will be retired from the QSCB 2012 Debt Retirement Fund.

Total qualified school construction bonds payments for all issues:

Year Ending June 30		Principal	Interest	Total
2017	\$		133,700	133,700
2018			133,700	133,700
2019			133,700	133,700
2020			133,700	133,700
2021			133,700	133,700
2022 - 2026			668,500	668,500
2027 - 2028		3,002,000	3,400	3,005,400
Total	\$	3,002,000	1,340,400	4,342,400

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.

Holmes County School District

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

Note 7 - Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, 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 numbers 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.

Holmes County School District

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$2,173,228, \$2,244,646, and \$2,231,953, respectively, which equaled the required contributions for each year.

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

At June 30, 2016, the school district reported a liability of \$35,263,008 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 0.228121 percent, which was based on a measurement date of June 30, 2015. This was a decrease of 0.003793 from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,198,717. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 981,786	
Net difference between projected and actual earnings on pension plan investments		2,017,056
Change of assumptions	3,037,788	
Changes in proportion and differences between District contributions and proportionate share of contributions	(146,369)	(662,583)
District contributions subsequent to the measurement date	2,173,228	
Total	\$ 6,046,433	\$ 1,354,473

Holmes County School District

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

\$2,173,228 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	\$	850,349
2018		803,692
2019		348,875
2020		515,816
Total	\$	<u>2,518,732</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

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-estimates 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:

Holmes County School District

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 46,479,875	\$ 35,263,008	\$ 25,955,106

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

Holmes County School District

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

Note 8 - Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property.

Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

<u>Year Ending June 30</u>		<u>Amount</u>
2017	\$	294,968
2018		285,538
2019		249,963
2020		161,085
2021		88,368
2022-2026		9,185
2027-2031		8,360
2032-2036		7,810
2037-2041		7,060
Therefore		<u>12,581</u>
Total	\$	<u><u>1,124,918</u></u>

Note 9 - Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 71

Holmes County School District

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

school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

Note 10 - Qualified Zone Academy Bonds

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

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 22nd of each year. The amount on deposit at June 30, 2016 was \$1,571,998. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2017	\$	150,000
2018		150,000
2019		150,000
2020		150,000
2021		127,000
Total	\$	<u>727,000</u>

Note 11 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school

Holmes County School District

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

facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credits rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

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

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credits is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2016 was \$198,993. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedules report the annual deposits to be made to the sinking fund by the school district.

1. Qualified school construction bonds series 2010:

Year Ending June 30	Amount
2017	\$ 50,000
2018	50,000
2019	186,000
2020	186,000
2021	186,000
2022 - 2026	1,542,000
Total	\$ 2,200,000

Holmes County School District

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

2. Qualified school construction bonds series 2012:

Year Ending June 30		Amount
2017	\$	66,000
2018		66,000
2019		67,000
2020		67,000
2021		67,000
2022 - 2026		335,000
2027 - 2028		134,000
Total	\$	<u>802,000</u>

Total payment for all issues:

Year Ending June 30		Amount
2017	\$	116,000
2018		116,000
2019		253,000
2020		253,000
2021		253,000
2022 - 2026		1,877,000
2027 - 2028		134,000
Total	\$	<u>3,002,000</u>

EEF Building and Buses revenue is pledged to go toward the sinking fund payments.

Note 12 - 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

Holmes County School District

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

purposes. Any disallowance resulting from the grantor audit may become a liability of the school district.

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

Note 13 - Effects of Deferred Amounts on Net Position

The unrestricted net position amount of (\$27,949,141) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$6,046,433 balance of deferred outflow of resources, at June 30, 2016 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$27,949,141) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions. The \$1,354,473 balance of deferred inflow of resources at June 30, 2016 will be recognized as revenue and will increase the unrestricted net position over the next 4 years.

Note 14 - Prior Period Adjustment

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

Exhibit B - Statement of Activities

Explanation	Amount
See explanation below.	\$ <u>(27,024)</u>

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

Fund	Explanation	Amount
General Fund	To adjust assets and liabilities in prior year.	\$ 5,781
QZAB Debt Retirement Fund	To adjust assets and liabilities in prior year.	(32,668)
Sixteenth Section Principal Fund	To adjust assets and liabilities in prior year.	(100)
Other Governmental Funds	To adjust assets and liabilities in prior year.	(37)
Total		\$ <u>(27,024)</u>

Holmes County School District

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

Note 15 - Insurance Recovery

The Holmes County School District received \$8,474 in insurance loss recoveries related to vandalized buses damage during the 2015 - 2016 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as support services.

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 Holmes County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

Effective July 1, 2018 Holmes County School District and Durant Public School District will merge in accordance to the House Bill 926. House Bill 926 provides for an administrative consolidation of the Holmes County School District and Durant Public School District into one school district to be designated as the Holmes County Consolidated School District.

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,417,284	4,730,609	4,730,612	313,325	3
State sources	13,766,419	13,820,360	13,648,123	53,941	(172,237)
Federal sources	313,200	315,456	330,454	2,256	14,998
Sixteenth section sources	712,313	622,837	622,837	(89,476)	0
Total Revenues	<u>19,209,216</u>	<u>19,489,262</u>	<u>19,332,026</u>	<u>280,046</u>	<u>(157,236)</u>
Expenditures:					
Instruction	10,223,905	9,737,016	9,667,570	486,889	69,446
Support services	8,125,819	7,627,491	7,581,112	498,328	46,379
Noninstructional services	18,659	13,285	13,285	5,374	0
Sixteenth section	76,100	84,160	84,330	(8,060)	(170)
Facilities acquisition and construction	0	25,135	25,136	(25,135)	(1)
Debt service:					
Interest	132,000	172,000	172,000	(40,000)	0
Other	2,500	3,750	3,750	(1,250)	0
Total Expenditures	<u>18,578,983</u>	<u>17,662,837</u>	<u>17,547,183</u>	<u>916,146</u>	<u>115,654</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>630,233</u>	<u>1,826,425</u>	<u>1,784,843</u>	<u>1,196,192</u>	<u>(41,582)</u>
Other Financing Sources (Uses):					
Insurance recovery	0	8,474	8,474	8,474	0
Operating transfers in	1,276,638	1,142,109	58,493	(134,529)	(1,083,616)
Operating transfers out	(2,175,564)	(817,799)	(335,021)	1,357,765	482,778
Total Other Financing Sources (Uses)	<u>(898,926)</u>	<u>332,784</u>	<u>(268,054)</u>	<u>1,231,710</u>	<u>(600,838)</u>
Net Change in Fund Balances	<u>(268,693)</u>	<u>2,159,209</u>	<u>1,516,789</u>	<u>2,427,902</u>	<u>(642,420)</u>
Fund Balances:					
July 1, 2015, as previously reported	2,815,033	737,021	1,303,076	(2,078,012)	566,055
Prior period adjustments	0	0	5,781	0	5,781
July 1, 2015, as restated	<u>2,815,033</u>	<u>737,021</u>	<u>1,308,857</u>	<u>(2,078,012)</u>	<u>571,836</u>
June 30, 2016	<u>\$ 2,546,340</u>	<u>2,896,230</u>	<u>2,825,646</u>	<u>349,890</u>	<u>(70,584)</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2016

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 3,185,296	3,538,543	2,513,532	353,247	(1,025,011)
Total Revenues	<u>3,185,296</u>	<u>3,538,543</u>	<u>2,513,532</u>	<u>353,247</u>	<u>(1,025,011)</u>
Expenditures:					
Instruction	1,042,597	1,432,429	968,083	(389,832)	464,346
Support services	1,939,431	1,963,639	1,546,278	(24,208)	417,361
Noninstructional services	149,921	116,810	52,220	33,111	64,590
Total Expenditures	<u>3,131,949</u>	<u>3,512,878</u>	<u>2,566,581</u>	<u>(380,929)</u>	<u>946,297</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>53,347</u>	<u>25,665</u>	<u>(53,049)</u>	<u>(27,682)</u>	<u>(78,714)</u>
Other Financing Sources (Uses):					
Operating transfers in			61,151	0	61,151
Operating transfers out	<u>(53,347)</u>	<u>(25,665)</u>	<u>(8,102)</u>	<u>27,682</u>	<u>17,563</u>
Total Other Financing Sources (Uses)	<u>(53,347)</u>	<u>(25,665)</u>	<u>53,049</u>	<u>27,682</u>	<u>78,714</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2015	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2016	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

Holmes County School District

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

PERS

Last 10 Fiscal Years*

		2016	2015
District's proportion of the net pension liability (asset)	\$	35,263,008	28,148,414
District's proportionate share of the net pension liability (asset)		0.228121%	0.231914%
District's covered - employee payroll		14,251,721	14,171,130
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll		247.43%	198.63%
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.

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

	2016	2015
Contractually required contribution	\$ 2,173,228	2,244,646
Contributions in relation to the contractually required contribution	2,173,228	2,244,646
Contribution deficiency (excess)	\$ -	-
District's covered - employee payroll	13,798,273	14,251,721
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.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Holmes County School District

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

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

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

SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title/	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 625,222
National School Lunch Program	10.555	1,518,567
Summer Food Service Program for Children	10.559	26,671
Total Child Nutrition Cluster		<u>2,170,460</u>
Total passed-through the Mississippi Department of Education		<u>2,170,460</u>
Total U.S. Department of Agriculture		<u><u>2,170,460</u></u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	<u>50,440</u>
Total U.S. Department of Defense		<u><u>50,440</u></u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
School Improvement Grants Cluster:		
School Improvement Grants	84.377	165,198
ARRA - School Improvement Grants, Recovery Act	84.388	<u>27,050</u>
Total School Improvement Grants Cluster		<u>192,248</u>
 Title I Grants to Local Educational Agencies	 84.010	 2,574,684
Career and Technical Education - Basic Grants to States	84.048	50,807
Rural Education	84.358	25,553
Supporting Effective Instruction State Grant	84.367	<u>419,191</u>
Subtotal		<u>3,070,235</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	602,571
Special Education - Preschool Grants	84.173	<u>31,122</u>
Total Special Education Cluster		<u>633,693</u>
Total passed-through the Mississippi Department of Education		<u>3,896,176</u>
Total U.S. Department of Education		<u><u>3,896,176</u></u>
<u>U.S. Environmental Protection Agency</u>		
Passed-through the Mississippi Department of Environmental Quality:		
ARRA - State Clean Diesel Grant Program, Recovery Act	66.040	<u>15,000</u>
Total passed-through the Mississippi Department of Environmental Quality		<u>15,000</u>
Total U.S. Environmental Protection Agency		<u><u>15,000</u></u>
 Total for All Federal Awards		 \$ <u><u>6,132,076</u></u>

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

HOLMES COUNTY SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2016

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 19,562,192	13,821,979	1,214,054	1,313,276	3,212,883
Other	6,798,464	1,208,921	295,718	6,208	5,287,617
Total	\$ 26,360,656	15,030,900	1,509,772	1,319,484	8,500,500
Total number of students *	2,887				
Cost per student	\$ 9,131	5,207	523	457	2,944

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

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

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

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

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

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

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

Holmes County School District

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

(1) Schedule of Expenditures of Federal Awards

- a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the school district and is presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements; however, the expenditures include transfers out. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Because the schedule presents only a selected portion of the operations of the school district, it is not intended to and does not present the financial position, changes in net position, or cash flows of the school district.
- b. The pass-through entities did not assign identifying numbers to the school district.
- c. The school district did not elect to use the 10% de minimis indirect cost rate.
- d. Donated commodities of \$150,481 are included in the National School Lunch Program.

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

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

OTHER INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
 General Fund
 Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 4,730,612	4,420,792	4,446,902	4,102,401
State sources	13,648,123	13,685,995	12,908,159	12,951,992
Federal sources	330,454	320,696	223,668	700,359
Sixteenth section sources	622,837	683,926		
Total Revenues	<u>19,332,026</u>	<u>19,111,409</u>	<u>17,578,729</u>	<u>17,754,752</u>
Expenditures:				
Instruction	9,667,570	9,888,656	9,768,216	9,555,001
Support services	7,581,112	8,068,273	7,981,217	7,819,323
Noninstructional services	13,285	17,049	5,041	2,899
Sixteenth section	84,330	54,357		1,681
Facilities acquisition and construction	25,136	100,360		
Debt service:				
Principal				67,015
Interest	172,000	132,000		148,223
Other	3,750	3,250	4,500	3,000
Total Expenditures	<u>17,547,183</u>	<u>18,263,945</u>	<u>17,758,974</u>	<u>17,597,142</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,784,843</u>	<u>847,464</u>	<u>(180,245)</u>	<u>157,610</u>
Other Financing Sources (Uses):				
Insurance recovery	8,474			
Operating transfers in	58,493	318,272	471,770	22,850
Operating transfers out	(335,021)	(1,798,786)	(731,507)	(276,126)
Other financing uses			(132,046)	
Total Other Financing Sources (Uses)	<u>(268,054)</u>	<u>(1,480,514)</u>	<u>(391,783)</u>	<u>(253,276)</u>
Net Change in Fund Balances	1,516,789	(633,050)	(572,028)	(95,666)
Fund Balances:				
July 1, as previously reported	1,303,076	1,808,401	2,380,429	2,476,095
Prior period adjustments	5,781	127,725		
July 1, as restated	<u>1,308,857</u>	<u>1,936,126</u>	<u>2,380,429</u>	<u>2,476,095</u>
June 30,	<u>\$ 2,825,646</u>	<u>1,303,076</u>	<u>1,808,401</u>	<u>2,380,429</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLMES COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 5,054,545	4,824,168	4,791,869	4,502,437
Increase (decrease) in fair market value			6,014	(38,442)
State sources	15,423,034	15,173,109	14,485,773	14,393,579
Federal sources	6,335,939	6,499,328	7,746,113	8,175,668
Sixteenth section sources	779,771	815,247	1,217,436	893,643
Total Revenues	<u>27,593,289</u>	<u>27,311,852</u>	<u>28,247,205</u>	<u>27,926,885</u>
Expenditures:				
Instruction	11,860,315	11,938,340	12,290,423	12,392,289
Support services	10,633,870	11,283,290	11,991,497	11,377,496
Noninstructional services	2,082,561	2,145,081	2,177,756	2,341,711
Sixteenth section	114,810	142,150	162,895	288,811
Facilities acquisition and construction	830,319	525,962	1,418,582	4,215,713
Debt service:				
Principal	595,000	575,000	560,000	695,000
Interest	234,440	212,530	96,470	251,473
Other	9,341	6,625	7,875	6,434
Total Expenditures	<u>26,360,656</u>	<u>26,828,978</u>	<u>28,705,498</u>	<u>31,568,927</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,232,633</u>	<u>482,874</u>	<u>(458,293)</u>	<u>(3,642,042)</u>
Other Financing Sources (Uses):				
Bonds issued				1,000,000
Insurance recovery	8,474			
Payment to QZAB and QSCB escrow agent	237,540		235,805	890,159
Payment to QZAB and QSCB debt escrow agent	(237,540)		(235,805)	(890,159)
Operating transfers in	626,436	1,951,960	1,762,011	3,127,375
Other financing sources	107,189	275,520		
Operating transfers out	(626,436)	(1,951,960)	(1,762,011)	(3,127,375)
Other financing uses		(275,523)	(133,359)	
Total Other Financing Sources (Uses)	<u>115,663</u>	<u>(3)</u>	<u>(133,359)</u>	<u>1,000,000</u>
Net Change in Fund Balances	1,348,296	482,871	(591,652)	(2,642,042)
Fund Balances:				
July 1, as previously reported	6,216,784	5,748,179	6,322,182	8,953,434
Prior period adjustments	(27,024)			
July 1, as restated	<u>6,189,760</u>	<u>5,748,179</u>	<u>6,322,182</u>	<u>8,953,434</u>
Increase (Decrease) in inventory	<u>(1,657)</u>	<u>(14,266)</u>	<u>17,648</u>	<u>10,790</u>
June 30,	<u>\$ 7,536,399</u>	<u>6,216,784</u>	<u>5,748,178</u>	<u>6,322,182</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County 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 Holmes County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Holmes County School District's basic financial statements, and have issued our report thereon dated March 22, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies as Findings 2016-001 and 2016-002.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Holmes County 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*.

Holmes County School District's Response to Findings

The Holmes County School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Holmes County School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 22, 2017

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Holmes County 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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holmes County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 22, 2017

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2016, which collectively comprise the Holmes County School District's basic financial statements and have issued our report thereon dated March 22, 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 ensure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

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

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

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 22, 2017

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Holmes County School District

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

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? Yes.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
84.367	Supporting Effective Instruction State Grant

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*:

Significant Deficiencies:

Finding 2016-001

Criteria:

Management is responsible for establishing an internal control system that ensures strong financial accountability and safeguarding of assets.

Condition:

While performing our review of athletic game receipts, we noted evidence that the beginning and ending ticket numbers were not being consistently accounted for. Cash count sheets were not reconciled to cash received.

Cause:

Internal control procedures were not in place to ensure that proceeds from games were accurately documented and the amount deposited is correct.

Effect:

Without strong internal controls in place to ensure cash received from athletic games is accounted and accurately documented, the district increases the risk that unauthorized or inappropriate use of the funds from athletic games would not be detected in a timely manner. This could also result in cash being understated.

Recommendation:

We recommend the district revise its system of cash collections process whereby all tickets are accounted for and reconciled to cash to ensure proceeds from games are accurately documented and the amount deposited is correct.

Finding 2016-002

Criteria:

The internal control surrounding capital assets should provide the district with assurance that capital assets are properly documented and all capital assets are safeguarded.

Condition:

While performing our capital assets test, several items were noted on the capital asset listing that could not be located or were located in areas that did not agree with the capital asset listing.

Cause:

Internal control procedures were not in place to ensure the capital asset listing agrees with the actual location of the assets and to make sure all capital assets are accounted for in the district.

Effect:

Without strong internal controls surrounding capital assets, the district is at risk of fraud as well as misstatement of capital assets.

Recommendation:

We recommend the district implement policies and procedures to make sure their capital asset listing is accurate and all assets are located.

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.

AUDITEE'S CORRECTIVE ACTION PLAN

RAYFORD HORTON
Board President, District E

FRANCINE JEFFERSON
Board Vice-President, District B

ANTHONY ANDERSON
Board Secretary, District A



SANDRA YOUNG
Board Member, District C

WILLIAM DEAN, JR.
Board Member, District D

JIM KEITH
Board Attorney

Holmes County School District
Dr. Angel Meeks
Superintendent of Education

"Educating Students. Transforming Lives."
AUDITEE'S CORRECTIVE ACTION PLAN

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards (UG), the Holmes County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2016:

Finding

Corrective Action Plan Details

2016-001

a. Name of Contact Person Responsible for Corrective Action

Name: Kathy Sample
Title: Business Manager
Phone Number: 662-834-2175

b. Corrective Action Planned:
The District will have additional professional development on the Activity Fund procedures as well as actively monitor each event to ensure accuracy of activity sheets.

c. Anticipated Completion Date:
June 30, 2018

2016-002

a. Name of Contact Person Responsible for Corrective Action

Name: Kathy Sample
Title: Business Manager
Phone Number: 662-834-2175

b. Corrective Action Planned:
The District will have additional professional development on our procedures and policies on how to account for capital and fixed assets.

c. Anticipated Completion Date:
June 30, 2018