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MONTGOMERY COUNTY SCHOOL DISTRICT

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

**MONTGOMERY COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT



WATKINS, WARD and STAFFORD

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INDEPENDENT AUDITORS' REPORT

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

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Montgomery 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.

Emphasis of a Matter

As further explained in the notes to financial statements (Note 13), the Montgomery County School District will cease to exist as of July 1, 2018 as required by Section 37-7-104.4, Mississippi Code 1972. All assets and liabilities of Montgomery County School District will be transferred to the Winona Municipal Separate School District. Our opinion is not modified with respect to this matter.

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 5-14, 43-46, 47 and 48, 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 Montgomery County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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* (CFR) 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 October 30, 2017 on our consideration of the Montgomery 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 Montgomery County School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 30, 2017

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The following discussion and analysis of Montgomery 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 \$11,025, which represents a .32% increase from fiscal year 2015. Total net position for 2015 decreased \$4,848,349, including a prior period adjustment of \$(4,891,004), which represents a 353% decrease from fiscal year 2014.
- General revenues amounted to \$3,526,638 and \$3,408,548, or 76% and 76% 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 \$1,089,152, or 24% of total revenues for 2016, and \$1,050,503, or 24 % of total revenues for 2015.
- The District had \$4,604,765 and \$4,416,396 in expenses for fiscal years 2016 and 2015; only \$1,089,152 for 2016 and \$1,050,503 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$3,526,638 for 2016 and \$3,408,548 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$3,462,143 in revenues and \$3,276,142 in expenditures for 2016, and \$3,353,466 in revenues and \$3,357,312 in expenditures in 2015. The General Fund's fund balance increased by \$155,432 from 2015 to 2016, and increased by \$267,237 from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$27,800 for 2016 and decreased by \$39,314 for 2015. The decrease for 2016 was due to the increase in accumulated depreciation.
- Long-term debt decreased by \$103,117 for 2016 and decreased by \$108,515 for 2015. This decrease for 2016 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$1,065 for 2016 and decreased by \$4,863 for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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

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

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

Fund Financial Statements

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

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

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

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 \$3,465,207 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.

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	\$ 1,151,138	\$ 1,037,587	10.94 %
Restricted assets	160,964	159,968	0.62 %
Capital assets, net	605,413	633,213	-4.39 %
Total assets	1,917,515	1,830,768	4.74 %
 Deferred outflows of resources	 1,456,238	 561,164	 159.50 %
 Current liabilities	 73,668	 124,578	 -40.87 %
Long-term debt outstanding	220,372	323,489	-31.88 %
Net pension liability	6,028,631	4,733,886	27.35 %
Total liabilities	6,322,671	5,181,953	22.01 %
 Deferred inflows of resources	 516,289	 686,211	 -24.76 %
 Net position:			
Net investment in capital assets	410,413	348,213	17.86 %
Restricted	435,996	425,971	2.35 %
Unrestricted	(4,311,616)	(4,250,416)	-1.44 %
Total net position (deficit)	\$ (3,465,207)	\$ (3,476,232)	0.32 %

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)	\$(4,311,616)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	5,088,682
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 777,066</u>

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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

- Decrease in net capital assets in the amount of \$27,800.
- The principal retirement of \$104,182 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 \$4,615,790 and \$4,459,051, respectively. The total cost of all programs and services was \$4,604,765 for 2016 and \$4,416,396 for 2015.

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

Table 2
Changes in Net Position

	Year Ended June 30, 2016	Year Ended June 30, 2015	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 85,738	\$ 82,418	4.03 %
Operating grants and contributions	1,003,414	968,085	3.65 %
Capital Grants and Contributions	-	-	N/A %
General revenues:			
Property taxes	1,117,376	1,144,701	(2.39) %
Grants and contributions not restricted	2,196,125	2,137,496	2.74 %
Investment earnings	1,332	1,250	6.56 %
Sixteenth section sources	209,276	121,699	71.96 %
Other	2,529	3,402	(25.66) %
Total revenues	4,615,790	4,459,051	3.52 %
Expenses:			
Instruction	1,920,564	1,999,005	(3.92) %
Support services	1,701,288	1,762,814	(3.49) %
Non-instructional	241,397	243,286	(0.78) %
Sixteenth section	117,801	37,142	217.16 %
Pension expense	610,441	356,227	71.36 %
Interest on long-term liabilities	13,274	17,922	(25.93) %
Total expenses	4,604,765	4,416,396	4.27 %
Increase (Decrease) in net position	11,025	42,655	(74.15) %
Net Position, July 1, as previously reported	(3,476,232)	1,372,117	(353.35) %
Prior Period Adjustment	-	(4,891,004)	N/A %
Net Position, July 1, as restated	(3,476,232)	(3,518,887)	1.21 %
Net Position, June 30	\$ (3,465,207)	\$ (3,476,232)	0.32 %

MONTGOMERY 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

	Total Expenses		Percentage Change
	2016	2015	
Instruction	\$ 1,920,564	\$ 1,999,005	(3.92) %
Support services	1,701,288	1,762,814	(3.49) %
Non-instructional	241,397	243,286	(0.78) %
Sixteenth section	117,801	37,142	217.16 %
Pension Expense	610,441	356,227	71.36 %
Interest on long-term liabilities	13,274	17,922	(25.93) %
Total expenses	\$ 4,604,765	\$ 4,416,396	4.27 %

	Net (Expense) Revenue		Percentage Change
	2016	2015	
Instruction	\$ (1,406,035)	\$ (1,532,838)	(8.27) %
Support services	(1,395,488)	(1,419,428)	(1.69) %
Non-instructional	13,408	(2,336)	(673.97) %
Sixteenth section	(103,783)	(37,142)	179.42 %
Pension Expense	(610,441)	(356,227)	71.36 %
Interest on long-term liabilities	(13,274)	(17,922)	(25.93) %
Total net (expense) revenue	\$ (3,515,613)	\$ (3,365,893)	4.45 %

- Net cost of governmental activities (\$3,515,613 for 2016 and \$3,365,893 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$1,117,376 for 2016 and \$1,144,701 for 2015) and state and federal revenues (\$2,196,125 for 2016 and \$2,137,496 for 2015). In addition, there was \$209,276 and \$121,699 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$1,332 for 2016 and \$1,250 for 2015.

MONTGOMERY 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 \$1,242,334, an increase of \$163,346, which includes an increase in inventory of \$1,141. \$789,960 or 64% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$452,374 or 36% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$155,432. The fund balance of Other Governmental Funds showed an increase in the amount of \$10,972, which includes an increase in reserve for inventory of \$1,141. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Titel I Fund	no increase or decrease
21st Century Fund	no increase or decrease
Forestry Escrow Fund	\$ (3,058)

BUDGETARY HIGHLIGHTS

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

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

MONTGOMERY 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 \$2,365,671, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents a decrease of \$10,305 from 2015. Total accumulated depreciation as of June 30, 2016, was \$1,760,258, and total depreciation expense for the year was \$37,072, resulting in total net capital assets of \$605,413.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 11,203	\$ 11,203	0.00 %
Buildings	269,020	272,547	(1.29) %
Building improvements	114,207	51,547	121.56 %
Improvements other than buildings	15,616	16,731	(6.66) %
Mobile equipment	189,183	202,328	(6.50) %
Furniture and equipment	6,184	7,216	(14.30) %
Leased property under capital leases	-	71,641	N/A
Total	<u>\$ 605,413</u>	<u>\$ 633,213</u>	<u>(4.39) %</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 \$220,372 in outstanding long-term debt, of which \$95,000 is due within one year. The liability for compensated absences increased \$1,065 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentag e Change</u>
Limited obligation bonds payable	195,000	285,000	(31.58) %
Shortfall notes payable	-	14,182	N/A %
Compensated absences payable	25,372	24,307	4.38 %
Total	<u>\$ 220,372</u>	<u>\$ 323,489</u>	<u>(31.88) %</u>

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

CURRENT ISSUES

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

In accordance with Section 37-7-104.4, Mississippi Code of 1972, effective July 1, 2018, the Montgomery County School District will have an administrative consolidation with the Winona Municipal Separate School District. At such time, the Montgomery County School District will cease to exist and the Montgomery School Board will be abolished. All assets and liabilities of the Montgomery County School District will be transferred to the newly named Winona-Montgomery Consolidated School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Montgomery County School District, P.O. Box 687, Winona, MS 38967.

BASIC FINANCIAL STATEMENTS

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

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 946,555
Due from other governments	199,890
Inventories	4,693
Restricted assets	160,964
Capital assets, non-depreciable:	
Land	11,203
Capital assets, net of accumulated depreciation:	
Buildings	269,020
Building improvements	114,207
Improvements other than buildings	15,616
Mobile equipment	189,183
Furniture and equipment	6,184
Total Assets	<u>1,917,515</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	1,456,238
Total Deferred Outflows of Resources	<u>1,456,238</u>
Liabilities	
Accounts payable and accrued liabilities	58,607
Unearned revenue	11,161
Interest payable on long-term liabilities	3,900
Long-term liabilities, due within one year:	
Capital related liabilities	95,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	100,000
Non-capital related liabilities	25,372
Net pension liability	6,028,631
Total Liabilities	<u>6,322,671</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	516,289
Total Deferred Inflows of Resources	<u>516,289</u>
Net Position	
Net investment in capital assets	410,413
Restricted for:	
Expendable:	
School-based activities	33,682
Debt service	99,246
Forestry improvements	172,449
Unemployment benefits	19,633
Non-expendable:	
Sixteenth section	110,986
Unrestricted (deficit)	(4,311,616)
Total Net Position (deficit)	<u>\$ (3,465,207)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Governmental Activities:					
Instruction	\$ 1,920,564	\$ 58,814	\$ 455,715	\$ -	\$ (1,406,035)
Support services	1,701,288	-	305,800	-	(1,395,488)
Non-instructional	241,397	12,906	241,899	-	13,408
Sixteenth section	117,801	14,018	-	-	(103,783)
Pension expense	610,441	-	-	-	(610,441)
Interest on long-term liabilities	13,274	-	-	-	(13,274)
Total Governmental Activities	<u>\$ 4,604,765</u>	<u>\$ 85,738</u>	<u>\$ 1,003,414</u>	<u>\$ -</u>	<u>\$ (3,515,613)</u>

General Revenues:

Taxes:

General purpose levies 1,103,715

Debt purpose levies 13,661

Unrestricted grants and contributions:

State 2,175,635

Federal 20,490

Unrestricted investment earnings 1,332

Sixteenth section sources 209,276

Other 2,529

Total General Revenues 3,526,638

Change in Net Position 11,025

Net Position (deficit) - Beginning (3,476,232)

Net Position (deficit) - Ending \$ (3,465,207)

The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2016

Exhibit C

	Major Funds						
	General Fund	Title I Fund	21st Century Learning Fund	Forestry Escrow Fund	Other Governmental Funds	Total Governmental Funds	
Assets							
Cash and cash equivalents	\$ 710,673	\$ -	\$ -	\$ 174,485	\$ 61,397	\$ 946,555	
Cash with fiscal agents	-	-	-	-	27	27	
Investments	-	-	-	-	160,718	160,718	
Due from other governments	50,336	22,989	43,136	-	83,429	199,890	
Accrued interest receivable	-	-	-	-	8	8	
Other receivables, net	211	-	-	-	-	211	
Due from other funds	79,543	-	-	-	-	79,543	
Inventories	-	-	-	-	4,693	4,693	
Total Assets	\$ 840,763	\$ 22,989	\$ 43,136	\$ 174,485	\$ 310,272	\$ 1,391,645	
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 38,216	903	\$ 8,266	\$ 2,036	\$ 9,077	\$ 58,498	
Due to other funds	109	22,086	34,870	-	22,587	79,652	
Unearned revenue	-	-	-	-	11,161	11,161	
Total Liabilities	\$ 38,325	\$ 22,989	\$ 43,136	\$ 2,036	\$ 42,825	\$ 149,311	
Fund Balances:							
Nonspendable:							
Inventory	-	-	-	-	4,693	4,693	
Permanent fund principal	-	-	-	-	110,986	110,986	
Restricted:							
Debt service	-	-	-	-	103,146	103,146	
Forestry improvement purposes	-	-	-	172,449	-	172,449	
Grant activities	-	-	-	-	28,989	28,989	
Unemployment benefits	-	-	-	-	19,633	19,633	
Assigned:							
Activity funds	12,478	-	-	-	-	12,478	
Unassigned	789,960	-	-	-	-	789,960	
Total Fund Balances	802,438	-	-	172,449	267,447	1,242,334	
Total Liabilities and Fund Balances	\$ 840,763	\$ 22,989	\$ 43,136	\$ 174,485	\$ 310,272	\$ 1,391,645	

The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT**Governmental Funds****Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position****June 30, 2016****Exhibit C-1**

Total fund balances for governmental funds **\$ 1,242,334**

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

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

Land	\$ 11,203	
Buildings	957,175	
Building improvements	294,181	
Improvements other than buildings	27,883	
Mobile equipment	623,717	
Furniture and equipment	451,512	
Accumulated depreciation	<u>(1,760,258)</u>	605,413

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

Net pension liability	(6,028,631)
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Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	1,456,238	
Deferred inflows of resources related to pensions	<u>(516,289)</u>	(5,088,682)

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

Limited obligation bonds	\$ (195,000)	
Compensated absences	(25,372)	
Accrued interest payable	<u>(3,900)</u>	<u>(224,272)</u>

Net position of governmental activities **\$ (3,465,207)**

The accompanying notes to financial statements are an integral part of these financial statements.

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For The Year Ended June 30, 2016

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	21st Century Learning Fund	Forestry Escrow Fund		
Revenues:						
Local sources	\$ 1,164,229	\$ -	\$ -	\$ -	\$ 27,788	\$ 1,192,017
State sources	2,056,641	-	-	-	248,248	2,304,889
Federal sources	31,571	291,691	224,236	-	347,152	894,650
Sixteenth section sources	209,702	-	-	14,275	257	224,234
Total Revenues	3,462,143	291,691	224,236	14,275	623,445	4,615,790
Expenditures:						
Instruction	1,717,243	152,122	153,478	-	109,616	2,132,459
Support services	1,458,431	32,418	64,052	-	272,374	1,827,275
Noninstructional services	-	40,422	-	-	216,061	256,483
Sixteenth section	100,468	-	-	17,333	-	117,801
Debt service:						
Principal	-	-	-	-	104,182	104,182
Interest	-	-	-	-	14,035	14,035
Other	-	-	-	-	1,350	1,350
Total Expenditures	3,276,142	224,962	217,530	17,333	717,618	4,453,585
Excess (Deficiency) of Revenues over (under) Expenditures	186,001	66,729	6,706	(3,058)	(94,173)	162,205
Other Financing Sources (Uses):						
Operating transfers in	9,511	-	-	-	106,809	116,320
Operating transfers out	(40,080)	(66,729)	(6,706)	-	(2,805)	(116,320)
Total Other Financing Sources (Uses)	(30,569)	(66,729)	(6,706)	-	104,004	-
Net Change in Fund Balances	155,432	-	-	(3,058)	9,831	162,205
Fund Balances:						
July 1, 2015	647,006	-	-	175,507	256,475	1,078,988
Increase (Decrease) in reserve for inventory	-	-	-	-	1,141	1,141
June 30, 2016	\$ 802,438	\$ -	\$ -	\$ 172,449	267,447	\$ 1,242,334

The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT**Exhibit D-1****Governmental Funds****Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2016**

Net change in fund balances - total governmental funds	\$	162,205
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	\$ 9,470	
Depreciation expense	<u>(37,072)</u>	(27,602)

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

(198)

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

Payments of debt principal	\$ 104,182	
Accrued interest payable	<u>2,111</u>	106,293

4. The implementation of GASB 68 creates a change in the amount of pension expense that is reported on the statement of activities. A breakdown of these changes are listed below:

Recording of contributions made subsequent to the measurement date	380,692	
Recording of pension expense for the current period	<u>(610,441)</u>	(229,749)

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

Change in compensated absences	(1,065)	
Change in inventory reserve	<u>1,141</u>	<u>76</u>

Change in net position of governmental activities	\$	<u>11,025</u>
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The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

Exhibit E

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 147,682
Investments	19,995	-
Due from other funds	-	109
Total Assets	<u>\$ 19,995</u>	<u>\$ 147,791</u>
Liabilities		
Accounts payable and accrued liabilities	-	\$ 145,519
Due to student clubs	-	2,272
Total Liabilities	<u>\$ -</u>	<u>\$ 147,791</u>
Net Position		
Reserved for endowments	19,995	
Total Net Position	<u>\$ 19,995</u>	

The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

Exhibit F

	Private Purpose Trust Funds
Additions	
Interest on investments	\$ 10
Total Additions	10
Change in Net Position	10
Net Position	
July 1, 2015	19,985
June 30, 2016	\$ 19,995

The accompanying notes to financial statements are an integral part of these financial statements.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

For financial reporting purposes, Montgomery 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. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT

Notes to Financial Statements

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 revenue received through Title I grants to local educational agencies and related expenditures incurred for Title I grants.

21st Century Learning Fund – This is a special revenue fund used to account for revenues and expenditures related to the Twenty First Century after school program.

Forestry Escrow Fund – This is the school district's fund that is used for improvements to sixteenth section land and timber resources.

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

The District's fiduciary funds include the following:

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

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.

Endowment Fund – This fund is used to fund scholarships for award winners.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

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

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

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

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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

6. Capital Assets

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

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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 period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 11 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The school district has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 11 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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

11. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is required to be taken by the board to establish the commitment. 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 District pursuant to authorization established by the board.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

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

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 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 deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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 \$1,057,132 (which includes \$110,577 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments) and \$167,677 (which includes \$19,995 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments), respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$27.

Investments

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

Investment Type	Rating	Maturities (in years)	Fair Value
Certificates of Deposit	N/A	Less than 1 year	\$ 130,572
Federated U.S. Treasury Cash Reserve Securities	N/A	N/A	50,141
Total			<u>\$ 180,713</u>

The district 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 an 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 inputs.

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

- Federated U.S. Treasury Cash Reserve Securities type of investments of \$50,141 are valued using quoted market prices (Level 1 inputs)
- Certificates of Deposit type of investments of \$130,572 are valued using a matrix pricing model (Level 2 inputs).

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 investment choices or one that addresses credit risk.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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. The investments in the Federated U.S. Treasury Cash Reserve Securities are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

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. As of June 30, 2016, the district had no investments for which this disclosure is applicable.

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	21st Century Learning Fund	\$ 34,870
	Title I Fund	22,086
	Other Governmental Funds	22,587
Agency Fund	General Fund	109
Total		<u>\$ 79,652</u>

The interfund balances represent loans created by negative fund cash in a pooled bank account caused by the time lag between expending federal funds and receiving reimbursement for those expenditures.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other Governmental Funds	\$ 40,080
Title I Fund	Other Governmental Funds	66,729
21st Century Learning Fund	General Fund	6,706
Other Governmental Funds	General Fund	2,805
Total		<u>\$ 116,320</u>

The transfers constitute transfers of indirect costs from special revenue funds to the General Fund and operating transfers between governmental funds.

Note 4 – Restricted Assets

The restricted assets represent the cash, investment balance, and accrued interest receivable balances totaling \$400, \$110,578, and \$8, respectively, 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 and investment balance, totaling \$27 and \$49,951, respectively, of the MAEP Retirement Fund.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 5 – Capital Assets

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

	Balance 7/1/2015	Increases	Decreases	Adjustments	Balance 6/30/2016
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 11,203	\$ -	\$ -	\$ -	\$ 11,203
Total non-depreciable capital assets	11,203	-	-	-	11,203
<u>Depreciable capital assets:</u>					
Buildings	957,175	-	-	-	957,175
Building improvements	187,204	-	-	106,977	294,181
Improvements other than buildings	27,883	-	-	-	27,883
Mobile equipment	614,247	9,470	-	-	623,717
Furniture and equipment	471,287	-	19,775	-	451,512
Leased property under capital leases	106,977	-	-	(106,977)	-
Total depreciable capital assets	2,364,773	9,470	19,775	-	2,354,468
<u>Less accumulated depreciation for:</u>					
Buildings	684,628	3,527	-	-	688,155
Building improvements	135,657	8,981	-	35,336	179,974
Improvements other than buildings	11,152	1,115	-	-	12,267
Mobile equipment	411,919	22,615	-	-	434,534
Furniture and equipment	464,071	834	19,577	-	445,328
Leased property under capital leases	35,336	-	-	(35,336)	-
Total accumulated depreciation	1,742,763	37,072	19,577	-	1,760,258
Total depreciable capital assets, net	622,010	(27,602)	198	-	594,210
Governmental activities capital assets, net	\$ 633,213	\$ (27,602)	\$ 198	\$ -	\$ 605,413

The adjustments represent prior year reclassifications from leased equipment under capital leases to building improvements.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 9,063
Support services	28,009
Total depreciation expense - Governmental activities	<u>\$ 37,072</u>

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 6 – Long-term Liabilities

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. Limited obligation bonds payable	\$ 285,000	\$ -	\$ 90,000	\$ 195,000	\$ 95,000
B. Shortfall notes payable	14,182	-	14,182	-	-
C. Compensated absences payable	24,307	1,065	-	25,372	-
Total	<u>\$ 323,489</u>	<u>\$ 1,065</u>	<u>\$ 104,182</u>	<u>\$ 220,372</u>	<u>\$ 95,000</u>

A. 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 Bonds, Series 1998	4.5 - 4.8%	2/1/1998	2/1/2018	<u>\$ 1,230,000</u>	<u>\$ 195,000</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 95,000	\$ 9,360	\$ 104,360
2018	100,000	4,800	104,800
Total	<u>\$ 195,000</u>	<u>\$ 14,160</u>	<u>\$ 209,160</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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall Notes Payable	2.5%	8/17/2012	8/17/2015	\$ 41,581	\$ -

C. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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 \$380,692, \$388,298 and \$374,252, 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 \$6,028,631 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 .039 percent, which was based on a measurement date of June 30, 2015. There was no change 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 \$610,441. 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	\$ 140,061	\$ -
Net difference between projected and actual earnings on pension plan investments	352,739	514,658
Changes of assumptions	519,346	-
Changes in proportion and differences between District contributions and proportionate share of contributions	63,400	1,631
District contributions subsequent to the measurement date	380,692	-
Total	\$ <u>1,456,238</u>	\$ <u>516,289</u>

\$380,692 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 ending June 30:	
2017	\$ 203,261
2018	189,578
2019	78,234
2020	88,184

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

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

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 7,946,288	\$ 6,028,631	\$ 4,437,334

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

Note 8 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2017	\$ 124,661
2018	103,370
2019	90,778
2020	57,131
2021	5,550
2022 – 2026	27,350
2027 – 2031	27,250
2032 – 2036	26,800
2037 – 2041	6,950
Total	<u>\$ 469,840</u>

Note 9 – Contingencies

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

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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 10 – Risk Management

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

Participation in Public Entity Risk Pool

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

Note 11 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(4,311,616) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$1,456,238 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenses and decrease unrestricted net position over the next 4 years.

The unrestricted net position amount of \$(4,311,616) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$516,289 balance of the deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next 4 years

Note 12 - 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 Montgomery County School District evaluated the activity of the district through October 30, 2017, (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:

- On May 11, 2016 Governor Phil Bryant signed Senate Bill 2495 Consolidating Montgomery County and Winona Municipal Separate School Districts. The districts will be consolidated after June 30, 2018 fiscal year

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 13 – Merger with Winona Municipal Separate School District

In accordance with Section 37-7-104.4, Mississippi Code of 1972, effective July 1, 2018, the Montgomery County School District will have an administrative consolidation with the Winona Municipal Separate School District. At such time, the Montgomery County School District will cease to exist and the Montgomery County School Board will be abolished. All assets and liabilities of the Montgomery County School District will be transferred to the newly named Winona-Montgomery Consolidated School District.

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,180,751	\$ 1,164,210	\$ 1,164,229	\$ (16,541)	\$ 19
State sources	2,064,467	2,056,641	2,056,641	(7,826)	-
Federal sources	23,000	31,571	31,571	8,571	-
Sixteenth section sources	162,038	209,702	209,702	47,664	-
Total Revenues	3,430,256	3,462,124	3,462,143	31,868	19
Expenditures:					
Instruction	1,941,864	1,717,243	1,717,243	224,621	-
Support services	1,507,852	1,458,581	1,458,431	49,271	150
Sixteenth section	30,900	100,468	100,468	(69,568)	-
Total Expenditures	3,480,616	3,276,292	3,276,142	204,324	150
Excess (Deficiency) of Revenues over (under) Expenditures	(50,360)	185,832	186,001	236,192	169
Other Financing Sources (Uses):					
Operating transfers in	566,176	369,068	9,511	(197,108)	(359,557)
Operating transfers out	(632,241)	(400,301)	(40,080)	231,940	360,221
Total Other Financing Sources (Uses)	(66,065)	(31,233)	(30,569)	34,832	664
Net Change in Fund Balances	(116,425)	154,599	155,432	271,024	833
Fund Balances:					
July 1, 2015	647,006	647,006	647,006	-	-
June 30, 2016	\$ 530,581	\$ 801,605	\$ 802,438	\$ 271,024	\$ 833

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 250,017	\$ 399,450	\$ 291,691	\$ 149,433	\$ (107,759)
Total Revenues	250,017	399,450	291,691	149,433	(107,759)
Expenditures:					
Instruction	189,642	235,155	152,122	(45,513)	83,033
Support services	26,000	38,251	32,418	(12,251)	5,833
Noninstructional services	40,372	45,654	40,422	(5,282)	5,232
Total Expenditures	256,014	319,060	224,962	(63,046)	94,098
Excess (Deficiency) of Revenues over (under) Expenditures	(5,997)	80,390	66,729	86,387	(13,661)
Other Financing Sources (Uses):					
Operating transfers in	70,000	-	-	(70,000)	-
Operating transfers out	(64,003)	(80,412)	(66,729)	(16,409)	13,683
Total Other Financing Sources (Uses)	5,997	(80,412)	(66,729)	(86,409)	13,683
Net Change in Fund Balances	-	(22)	-	(22)	22
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ (22)	\$ -	\$ (22)	\$ 22

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Twenty First Century Learning Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	\$ 381,286	\$ 224,236	\$ 381,286	\$ (157,050)
Total Revenues	-	381,286	224,236	381,286	(157,050)
Expenditures:					
Instruction	-	242,261	153,478	(242,261)	88,783
Support services	-	127,445	64,052	(127,445)	63,393
Total Expenditures	-	369,706	217,530	(369,706)	152,176
Excess (Deficiency) of Revenues over (under) Expenditures	-	11,580	6,706	11,580	(4,874)
Other Financing Sources (Uses):					
Operating transfers out	-	(11,580)	(6,706)	(11,580)	4,874
Total Other Financing Sources (Uses)	-	(11,580)	(6,706)	(11,580)	4,874
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ -	\$ -	\$ -	\$ -

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Budgetary Comparison Schedule
Forestry Escrow Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 6,300	\$ 14,275	\$ 14,275	\$ 7,975	\$ -
Total Revenues	6,300	14,275	14,275	7,975	-
Expenditures:					
Sixteenth section	10,500	17,333	17,333	(6,833)	-
Total Expenditures	10,500	17,333	17,333	(6,833)	-
Excess (Deficiency) of Revenues over (under) Expenditures	(4,200)	(3,058)	(3,058)	1,142	-
Net Change in Fund Balances	(4,200)	(3,058)	(3,058)	1,142	-
Fund Balances:					
July 1, 2015	175,507	175,507	175,507	-	-
June 30, 2016	\$ 171,307	\$ 172,449	\$ 172,449	\$ 1,142	\$ -

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Schedule Of The District's Proportionate Share Of The Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	\$ 6,028,631	\$ 4,733,886
District's proportionate share of the net pension liability (asset)	0.039%	0.039%
District's covered-employee payroll	\$ 2,465,384	\$ 2,376,203
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	244.53%	199.22%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

The notes to 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.

The 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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Required Supplementary Information
Schedule of District Contributions
PERS
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 380,692	\$ 388,298
Contribution in relation to the contractually required contribution	380,692	388,298
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	2,417,089	2,465,384
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

The 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.

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes To Required Supplementary Information

Note 1 – Budgetary Comparison Schedule

A. Basis of Presentation

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

B. 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.

Note 2 – Pension Schedules

A. Changes of benefit terms

There were no changes of benefit terms for the FYE 6/30/2016.

B. 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

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 79,533
National school lunch program	10.555	161,021
Total child nutrition cluster		240,554
Total passed-through Mississippi Department of Education		240,554
Total U.S. Department of Agriculture		240,554
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	20,490
Total Federal Communications Commission		20,490
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	291,691
Twenty-first century community learning centers	84.287	224,236
Improving teacher quality state grants	84.367	24,486
Subtotal		540,413
Special education cluster:		
Special education - grants to states	84.027	96,762
Special education - preschool grants	84.173	5,169
Total special education cluster		101,931
Total passed-through Mississippi Department of Education		642,344
Total U.S. Department of Education		642,344
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	11,081
Total passed-through Mississippi Department of Education		11,081
Total U.S. Department of Health and Human Services		11,081
Total for All Federal Awards		\$ 914,469

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

MONTGOMERY COUNTY SCHOOL DISTRICT
Notes To Supplementary Information

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards, 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*, includes the federal award activity of Montgomery County School District under programs of the federal and state governments for the year ended June 30, 2016. The schedule presents only a selected portion of the operations of Montgomery County School District and is not intended to, and does not, present the financial position, changes in net position, or cash flows of the District.

Note 2 – Basis of Accounting

The schedule is prepared on the same basis of accounting as Montgomery County School District's financial statements. The District uses the current financial resource measurement focus and the modified accrual basis of accounting.

Note 3 – Program Costs

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following the cost principals contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to its reimbursements.

Note 4 – Noncash Awards – Commodities

The amount of commodities reported on the schedule of expenditures of federal awards is the value of commodities received by the district and reported under the National School Lunch Program CFDA # 10.555. The value of the commodities received during the fiscal year was \$13,877.

Note 5 – Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

MONTGOMERY COUNTY SCHOOL DISTRICT
Supplementary Information
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	\$ 3,379,361	2,319,128	411,052	232,861	416,320
Other	1,074,224	288,047	95,602	2,816	687,759
Total	<u>\$ 4,453,585</u>	<u>2,607,175</u>	<u>506,654</u>	<u>235,677</u>	<u>1,104,079</u>
Total number of students *	<u>273</u>				
Cost per student	<u>\$ 16,313</u>	<u>9,550</u>	<u>1,856</u>	<u>863</u>	<u>4,044</u>

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

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

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

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

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

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

OTHER INFORMATION

MONTGOMERY COUNTY SCHOOL DISTRICT
Other Information
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 1,164,229	\$ 1,199,323	\$ 1,158,906	\$ 1,093,666
State sources	2,056,641	2,005,510	2,023,594	2,064,525
Federal sources	31,571	26,577	37,358	85,705
Sixteenth section sources	209,702	122,056	-	-
Total Revenues	3,462,143	3,353,466	3,219,858	3,243,896
Expenditures:				
Instruction	1,717,243	1,814,936	1,724,048	1,641,168
Support services	1,458,431	1,517,491	1,590,621	1,374,273
Sixteenth section	100,468	24,885	-	-
Total Expenditures	3,276,142	3,357,312	3,314,669	3,015,441
Excess (Deficiency) of Revenues over (under) Expenditures	186,001	(3,846)	(94,811)	228,455
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	-	41,581
Insurance recovery	-	2,462	-	416
Sale of transportation equipment	-	-	-	6,526
Operating transfers in	9,511	7,480	158,930	5,608
Operating transfers out	(40,080)	(61,046)	(58,502)	(82,162)
Total Other Financing Sources (Uses)	(30,569)	(51,104)	100,428	(28,031)
Net Change in Fund Balances	155,432	(54,950)	5,617	200,424
Fund Balances:				
Beginning of period, as previously reported	647,006	379,769	374,152	173,728
Fund balance reclassifications	-	322,187	-	-
Beginning of period, as restated	647,006	701,956	374,152	173,728
End of Period	\$ 802,438	\$ 647,006	\$ 379,769	\$ 374,152

*SOURCE - PRIOR YEAR AUDIT REPORTS

MONTGOMERY COUNTY SCHOOL DISTRICT**Other Information****Statement of Revenues, Expenditures and Changes in Fund Balances****All Governmental Funds****Last Four Years****UNAUDITED**

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 1,192,017	\$ 1,228,276	\$ 1,190,343	\$ 1,114,490
State sources	2,304,889	2,246,812	2,201,620	2,255,721
Federal sources	894,650	858,770	875,932	1,054,784
Sixteenth section sources	224,234	122,584	117,754	172,917
Total Revenues	4,615,790	4,456,442	4,385,649	4,597,912
Expenditures:				
Instruction	2,132,459	2,224,591	2,134,079	2,158,066
Support services	1,827,275	1,877,196	1,881,852	1,733,389
Noninstructional services	256,483	256,392	259,320	269,174
Sixteenth section	117,801	37,142	63,696	36,397
Debt service:				
Principal	104,182	108,515	112,139	97,701
Interest	14,035	18,657	23,730	27,409
Other	1,350	1,250	1,250	-
Total Expenditures	4,453,585	4,523,743	4,476,066	4,322,136
Excess (Deficiency) of Revenues over (under) Expenditures	162,205	(67,301)	(90,417)	275,776
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	-	41,581
Insurance recovery	-	2,462	-	416
Sale of transportation equipment	-	-	-	6,526
Operating transfers in	116,320	68,526	262,274	132,193
Operating transfers out	(116,320)	(68,526)	(262,274)	(132,193)
Other financing uses	-	-	-	(1,250)
Total Other Financing Sources (Uses)	-	2,462	-	47,273
Net Change in Fund Balances	162,205	(64,839)	(90,417)	323,049
Fund Balances:				
Beginning of period, as previously reported	1,078,988	1,144,453	1,237,021	914,179
Prior period adjustments	-	-	-	(2,651)
Beginning of period, as restated	1,078,988	1,144,453	1,237,021	911,528
Increase (Decrease) in reserve for inventory	1,141	(626)	(2,151)	2,444
End of Period	\$ 1,242,334	\$ 1,078,988	\$ 1,144,453	\$ 1,237,021

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	Thomas J. Browder, CPA
Harry W. Stevens, CPA	Stephen D. Flake, CPA
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J. Randy Scrivner, CPA	Michael C. Knox, CPA
Kimberly S. Caskey, CPA	Clifford P. Stewart, CPA
Susan M. Lummus, CPA	

INDEPENDENT AUDITORS' 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
Montgomery 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 the Montgomery County School District as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Montgomery County School District's basic financial statements and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

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

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

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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. **(Finding 2016-001 and 2016-002).**

Compliance and Other Matters

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

Montgomery County School District's Response to Findings

Montgomery County School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Montgomery County 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 them.

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.

Watkins, Ward and Stafford, PLLC

Louisville, Mississippi
October 30, 2017

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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

To the Superintendent and School Board
Montgomery County School District

Report on Compliance for Each Major Federal Program

We have audited the Montgomery 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 Montgomery County School District's major federal program for the year ended June 30, 2016. Montgomery County School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Montgomery 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 Montgomery County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Montgomery 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 the Montgomery County School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Montgomery County School District's internal control over compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	Thomas J. Browder, CPA
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**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board
Montgomery County School District

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

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

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

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

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

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

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 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.

Purpose of this Report

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 30, 2017

Watkins Ward and Stafford, PLLC

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response is as follows:

1. PERS Employees Form 4B Should Be Filed Within 5 Days of Reemployment and Their Earnings Should Be Limited To The Amount on The Form 4B

Finding

Section 25-11-127, Miss Code Ann. (1972) requires the District to ensure that all PERS retirees complete and file a PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" within 5 days of employment and that the applicable retiree not be paid more than is legally allowed.

During our testing of PERS retirees we noted that one (1) PERS retiree's pay that was hired by district exceeded the amount allowed on the PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree".

Recommendation

We recommend the district comply with Section 25-11-127, Miss Code Ann. (1972) which requires the District to ensure that all PERS retirees complete and file a PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" within 5 days of employment and that the applicable retiree not be paid more than is legally allowed.

School District's Response

We will make sure all PERS retirees complete and file PERS Form 4B within 5 days of employment and are not paid more than is legally allowed.

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

The Montgomery County School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
October 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section I: Summary of Auditors' Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' 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> |
| 10.553/10.555 | Child Nutrition Cluster |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | Yes |

Section II: Financial Statement Findings

Significant Deficiencies Not Considered To Be A Material Weakness

Finding 2016-001 Internal Controls Over General Disbursements Should Be Strengthened

Criteria: Management is responsible for the implementation of internal controls to properly safeguard the resources of the school district.

Condition: As noted in the prior year, per our testing of general disbursements we noted 7 occasions where there was inadequate receiving documentation for goods and services.

Effect: Lack of adequate internal controls surrounding the approval of expenditures and over general disbursements could result in expenditures being made that were not properly authorized and misappropriation of public funds.

Cause: Due to restrictive budgets there are a limited number of employees in the central office who have a substantial workload.

Recommendation

We recommend the district implement controls and procedures to ensure that all expenditures are properly authorized and only paid after sufficient documentation has been received that ensures that the goods and services have actually been received by the school district.

Views of Responsible Officials of the Auditee

We will implement controls and procedures to ensure that all expenditures are properly authorized and only paid after sufficient documentation has been received that ensures that the goods and services have actually been received by the school district.

Finding 2016-002 Internal Controls Over Activity Fund Receipts Should Be Strengthened

Criteria: Management is responsible for the implementation of internal controls to properly safeguard the resources of the school district.

Condition: During our testing of activity fund receipts we noted that the athletic events receipt forms do not contain beginning and ending ticket numbers. Without the ticket numbers the total amount of sales cannot be reconciled to cash collected at the applicable event.

Effect: Proper internal controls were not in place to ensure deposits were made timely, revenue was coded to proper accounts and that documentation was retained to provide assurances that the proper amount of revenue was recorded. Without proper internal controls being in place to account for all monetary transactions, the district increases the risk of misappropriation of assets and inaccurate recording of revenue.

Cause: Due to a lack of training of individuals at the applicable school.

Recommendation

We recommend the district implement internal controls to ensure that all deposits are made daily, revenue is properly reported and documentation is maintained to substantiate all receipts. We also recommend that all school event forms contain the correct information regarding beginning and ending ticket numbers for the applicable event, that tickets be issued sequentially with the gate workers and principal at the individual school verifying and signing the applicable event form.

Views of Responsible Officials of the Auditee

We will implement internal controls to ensure that all school event forms contain the correct information regarding beginning and ending ticket numbers for the applicable event, and that tickets be issued sequentially with the gate workers and principal at the individual school verifying and signing the applicable event form.

Section III: Federal Award Findings and Questioned Costs

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

Department of Education
Montgomery County
James Johnson-Waldington

Board of Education
 Evelyn Baskin
 Vivian McGee
 Brenda Norris
 Harvey Overstreet
 Alfonzo White

Superintendent
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Marsha Cummings, Assistant
 Superintendent
 Betty Forrest, Food Service Director
 Doris Johnson, Exec. Secretary /
 Accounts Payable
 Lynea Watson, Business Manager /
 Finance Officer

Finance & Compliance Audit Division

As required by Section 2 CFR 200.516(a) of the Uniform Circular, Montgomery County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

<u>Finding</u>		<u>Corrective Action Plan Details</u>
2016-001	a.	Name of Contact Person Responsible for Corrective Action
		Lynea Watson, Business Manager 662-283-4533
	b.	Corrective Action Planned:
		We will implement controls and procedures to ensure that all expenditures are properly authorized and only paid after sufficient documentation has been received that ensures that the goods and services have actually been received by the school district.
	c.	Anticipated Completion Date:
		Immediately
2016-002	a.	Name of Contact Person Responsible for Corrective Action
		Lynea Watson, Business Manager 662-283-4533
	b.	Corrective Action Planned:
		We will implement internal controls to ensure that all deposits are made daily, revenue is properly reported and documentation is maintained to substantiate all receipts. We also recommend that all school event forms contain the correct information regarding beginning and ending ticket numbers for the applicable event, that tickets be issued sequentially with the gate workers and principal at the individual school verifying and signing the applicable event form.
	c.	Anticipated Completion Date:
		Immediately

The Montgomery County School District does not discriminate on the basis of race, sex, national origin, or disability, and is an Equal Opportunity Employer.

Department of Education

Montgomery County

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Superintendent

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Doris Johnson, Exec. Secretary /

Accounts Payable

Lynea Watson, Business Manager /

Finance Officer

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Financial and Compliance Audit Division

As required by Section ____2 CFR 200.516(a) of the Uniform Guidance, Montgomery County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2016:

<u>Finding</u>	<u>Status</u>
2015-1	Not Corrected

Sincerely,

James Johnson-Waldington, Superintendent